

**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. 14299
ORDER NO. R-13137**

**APPLICATION OF MEWBOURNE OIL
COMPANY FOR COMPULSORY
POOLING AND THREE NON-
STANDARD WELL UNITS, EDDY
COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. at Santa Fe, New Mexico on March 31, 2009 before Examiners William V. Jones and David K. Brooks.

NOW, on this 17th day of June, 2009, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Oil Conservation Division has jurisdiction of this case and of the subject matter.

(2) Mewbourne Oil Company ("applicant" or "Mewbourne"), seeks an order pooling all uncommitted interests from the surface to a depth of 10,600 feet or the top of the Morrow formation underlying Lots 5-12 (the N/2 equivalent) of Section 1, Township 22 South, Range 25 East, NMPM, Eddy County, New Mexico, in the following manner:

- a. Lots 5-12 (N/2 equivalent), forming a non-standard 343.54-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including but not limited to, the following gas pools:

Undesignated Catclaw Draw-Wolfcamp Gas Pool (74440)
Undesignated Hackberry Hills-Canyon Gas Pool (77920)

Undesignated Catclaw Draw-Strawn Gas Pool (74360)
Undesignated Hackberry Hills-Atoka Gas Pool (96239)
Undesignated Revelation-Atoka Gas Pool (97205)

- b. Lots 7-10, (NW/4 equivalent), forming a non-standard 176.05-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- c. Lot 9, (SW/4 NW/4), forming a non-standard 44.43-acre, more or less, oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including but not limited to, the Undesignated Happy Valley-Bone Spring Pool (96437).

(3) The above-described units ("the Unit or Units") are to be dedicated to the applicant's Hackberry Hills "1" Federal Well No. 1 (API No. 30-015-36960) [the proposed well], to be drilled at a standard well location 1650 feet from the North line and 990 feet from the West line (Lot 9) of Section 1 to an approximate depth of 12,000 feet with the Morrow formation gas as the primary target. The Morrow formation top is expected to be encountered at approximately 10,600 feet from surface. Secondary targets above the Morrow being pooled in this case may be completed as conditions dictate.

(4) The applicant appeared at the hearing and presented a Landman who testified that:

- a. For depths from the surface to 10,600 feet:
 - 1. ownership is identical within the entire N/2 of Section 1;
 - 2. at least one interest owner could not be located because that company was no longer in business;
 - 3. there are other interest owners who have not agreed to participate;
 - 4. all formations above the Morrow are included in these depths and are prospective as targets only after the Morrow is tested;
 - 5. The Joint Operating Agreement ("JOA"), currently dated 2/25/09, defines these depths as the "Shallow Unit";
 - 6. That JOA has details of the cost allocation formula between the owners of the Shallow Unit and owners of the Deep Unit (Morrow owners);
 - 7. Owners of the Shallow Unit would participate in the well only if formations above the Morrow are completed, otherwise Shallow Unit owners would not be charged for this well;

8. If the well is completed in any formation in the Shallow Unit, the participating owners in the Shallow Unit would reimburse the owners in the Deep Unit for a proportion of well costs as provided in the JOA, the relevant provisions of which were tendered in evidence as Exhibit 3.
9. This cost allocation formula is also used by Yates Petroleum Corporation.

b. For depths from 10,600 feet to the base of the Morrow formation:

1. All interest owners have agreed to participate in the well and therefore are not being compulsorily pooled;
2. These depths include only the Morrow formation;
3. As detailed in the JOA, these "Deep Unit" owners would pay all well costs if the Morrow is the only formation completed for production.

(5) No other party entered an appearance in this case or otherwise opposed this application.

(6) Applicant is an owner of an oil and gas working interest within the Units. Applicant has a right to propose and drill its Hackberry Hills "1" Federal Well No. 1 (API No. 30-015-36960) to a common source of supply within the N/2 of Section 1.

(7) Two or more separately owned tracts are embraced within the Units, 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.

(8) There are interest owners within these Units who could not be located. As a result of parties not being located, notice of this pooling was also published in the newspaper. There are other parties who have not yet agreed to pool their interest(s).

(9) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units 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 Units.

(10) Applicant should be designated the operator of the proposed well and of the Units.

(11) 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.

(12) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 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*."

(13) The formula proposed by the applicant for allocation of well costs between owners in the Deep Unit and owners in the Shallow Unit is just and reasonable.

(14) These proposed Units are non-standard due to variations in legal subdivisions of the United States Public Lands Survey. The applicant's application to allow creation of non-standard units in this case should be approved.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company ("applicant"), all uncommitted interests, whatever they may be, in the oil and gas from the surface to 10,600 feet or the top of the Morrow formation underlying Lots 5-12 (the N/2 equivalent) of Section 1, Township 22 South, Range 25 East, NMPM, Eddy County, New Mexico, are hereby pooled, as follows:

- a. Lots 5-12 (N/2 equivalent), forming a non-standard 343.54-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including but not limited to, the following gas pools:

Undesignated Catclaw Draw-Wolfcamp Gas Pool (74440)
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- b. Lots 7-10, (NW/4 equivalent), forming a non-standard 176.05-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- c. Lot 9, (SW/4 NW/4), forming a non-standard 44.43-acre, more or less, oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including but not limited to, the Undesignated Happy Valley-Bone Spring Pool (96437).

(2) The above-described units ("the Units or Unit") shall be dedicated to the applicant's "proposed well", the Hackberry Hills "1" Federal Well No. 1 (API No. 30-015-36960), to be drilled vertically from a standard well location within Lot 9 (SW/4 NW/4) of Section 1 to approximately 12,000 feet to test the Morrow formation.

Secondary targets above the Morrow which are pooled in this case shall be completed as conditions dictate and at the discretion of the operator or as provided in the Joint Operating Agreement.

(3) Applicant's request to create non-standard sized units in this case is hereby approved.

(4) Mewbourne Oil Company (OGRID 14744) is hereby designated the operator of the proposed well and of the Units.

(5) The operator of the Units shall commence drilling the proposed well on or before June 30, 2010, and shall thereafter continue drilling and completing the well with due diligence to test the productivity of the Morrow formation. In the event the operator does not commence drilling the proposed well on or before June 30, 2010, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the proposed well not be completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Unit created by this Order shall terminate unless the operator, prior to the expiration of such 120-day period, files a request with the Division for extension of the time for completion of the proposed well. Such request shall include an affidavit or affidavits setting forth good cause for an extension, supported by satisfactory evidence. The Division Director may grant such request without hearing.

(7) Upon final plugging and abandonment of the Hackberry Hills "1" Federal Well No. 1 (API No. 30-015-36960) and any other well drilled on the Unit pursuant to Division Rules 13.9 through 13.11, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(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.) When the operator makes a decision to complete the proposed well in the Shallow Unit (as it is defined in the JOA), the operator shall furnish the Division and each known pooled working interest owner in the Shallow Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well which are allocable to the owners of the Shallow Unit under the formula provided in the JOA, applicable provisions of which were admitted in evidence as Exhibit 3 at the hearing of this case ("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 in the Shallow Unit. 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:

- (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) are hereby fixed at \$7,000 per month while drilling and \$700 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. The amount of costs withheld shall be only those applicable for the time when the proposed well is being completed in, or producing from, the Shallow Unit.

(15) Except as provided in Ordering Paragraphs (12) and (14), 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 (Attn: Records Clerk) of

the name and address of the escrow agent within one (1) year from the date of issuance of this order.

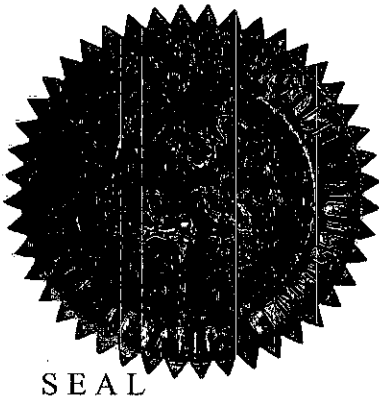
(16) Any unleased mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(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.

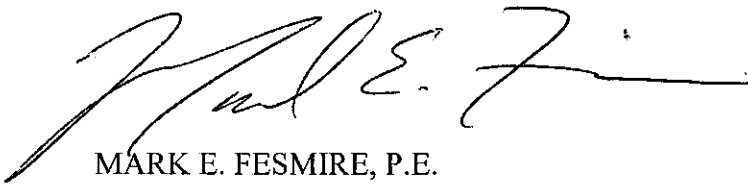
(18) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) 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


MARK E. FESMIRE, P.E.
Director