

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:

*Queen 23 24 W00P 2nd
Com #1H
30-015-44250*

CASE NO. 15689
ORDER NO. R-14509

APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD
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 May 25, 2017, at Santa Fe, New Mexico,
before Examiner Scott Dawson.

NOW, on this 1st day of December, 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) Mewbourne Oil Company (the "Applicant") seeks approval of a 480-acre
non-standard gas spacing and proration unit and project area (the "Unit") for gas production
from the Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220) comprising the SE/4 of
Section 23 and S/2 of Section 24, both in Township 24 South, Range 28 East, NMPM,
Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted
interests in the Unit for the Wolfcamp formation.

(3) The Unit will be dedicated to Applicant's Queen 23 24 W00P Federal Com
Well No. 1H (the "proposed well"; API No. 30-015-44250), a horizontal well to be drilled
from a surface location 750 feet from the South line and 2175 feet from the West line (Unit
N) of Section 23, Township 24 South, Range 28 East, to a bottom-hole location 450 feet
from the South line and 330 feet from the East line (Unit P) of Section 24, Township 24
South, Range 28 East, NMPM. The Unit will also be dedicated to Applicant's Queen 23
24 W20P Federal Com Well No. 2H (the "second proposed well" API No. 30-015-44248),

a horizontal well to be drilled from a surface location 690 feet from the South line and 2175 feet from the West line (Unit N) of Section 23, Township 24 South, Range 28 East, to a bottom-hole location 330 feet from the South line and 330 feet from the East line (Unit P) of Section 24, Township 24 South, Range 28 East, NMPM. The location of the completed interval for both wells will be standard for gas production within the Unit.

(4) The proposed wells are within the Purple Sage; Wolfcamp (Gas) Pool and are subject to statewide Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 320-acre units each comprising a governmental half section. The proposed Unit and project area consists of one and one-half standard units oriented from west to east.

(5) Applicant appeared through counsel and presented the following land and geologic evidence:

- (a) The Wolfcamp formation in this area is suitable for development by horizontal drilling.
- (b) The proposed orientation of the horizontal wells west to east is appropriate for the Unit.
- (c) All acreage to be included in the Unit is expected to be productive in the Wolfcamp formation, so that the Unit as requested will not impair correlative rights.
- (d) All pooled interests are located in the NE/4 SE/4 of Section 23 and all were located.
- (e) Notice of the application and hearing in this case was provided to lessees or operators of surrounding tracts as affected parties of the proposed non-standard spacing unit.
- (f) 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 whose identity and whereabouts could be ascertained by exercise of reasonable diligence, and
- (g) all affected parties were successfully contacted and provided with notice by certified mail.

(6) EOG Resources, Inc. entered an appearance through an attorney and did not oppose this application.

The Division concludes as follows:

(7) The proposed non-standard unit should be approved to enable Applicant to drill two horizontal wells that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(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 or affiliate of an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the proposed wells to a common source of supply within the Unit at the proposed locations.

(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 a 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.

(12) Mewbourne Oil Company should be designated the operator of the proposed wells and the Unit.

(13) 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 wells.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$8000 per well per month while drilling and \$800 per well per month while producing, provided that these rates may be adjusted annually pursuant to the Overhead section of the COPAS form titled "Accounting Procedure-Joint Operations."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company, a 480-acre non-standard gas spacing and proration unit and project area (the "Unit") is hereby established for gas production from the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool, (Pool code 98220), comprising the SE/4 of Section 23, and S/2 of Section 24, both in Township 24 South, Range 28 East NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation underlying the Unit, are hereby pooled.

(3) The Unit will be dedicated to Applicant's Queen 23 24 W00P Federal Com Well No. 1H (the "proposed well"; API No. 30-015-44250), a horizontal well to be drilled from a surface location 750 feet from the South line and 2175 feet from the West line (Unit N) of Section 23, Township 24 South, Range 28 East, to a bottom-hole location 450 feet from the South line and 330 feet from the East line (Unit P) of Section 24, Township 24 South, Range 28 East, NMPM. The Unit will also be dedicated to Applicant's Queen 23 24 W20P Federal Com Well No. 2H (the "second proposed well" API No. 30-015-44248), a horizontal well to be drilled from a surface location 690 feet from the South line and 2175 feet from the West line (Unit N) of Section 23, Township 24 South, Range 28 East, to a bottom-hole location 330 feet from the South line and 330 feet from the East line (Unit P) of Section 24, Township 24 South, Range 28 East, NMPM. The location of the completed interval for both wells will be standard for gas production within the Unit.

(4) The operator of the Unit shall commence drilling the proposed wells on or before October 31, 2018, and shall thereafter continue drilling the proposed wells with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling the proposed wells on or before October 31, 2018, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) Should the proposed wells 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 wells for good cause shown by satisfactory evidence.

(7) Upon final plugging and abandonment of the proposed wells and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled Unit shall terminate, unless this Order has been amended to authorize further operations.

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

(9) 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 wells ("well costs").

(10) 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."

(11) 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.

(12) 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.

(13) 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 wells, 200% of the above costs.

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

(15) Reasonable charges for supervision (combined fixed rates) for each well are hereby fixed at \$8000 per well per month while drilling and \$800 per well per month while producing, provided that these rates shall 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.

(16) Except as provided in Paragraphs (13) and (15) 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 7-8A-31, as amended).

(17) 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.

(18) 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.

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

(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

David R. Catanach

DAVID R. CATANACH
Director