

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

APPLICATION OF TOM M. RAGSDALE TO
REVOKE ORDERS NOS. R-20924 & R-20924A,
OR, IN THE ALTERNATIVE, TO DECLARE
UNREASONABLE CERTAIN COSTS IMPOSED
BY MEWBOURNE OIL COMPANY, LEA COUNTY,
NEW MEXICO.

Case No. 21324

MEWBOURNE OIL COMPANY'S CLOSING ARGUMENT
AND
PROPOSED FINDINGS AND CONCLUSIONS

This written closing is submitted by Mewbourne Oil Company ("Mewbourne") as required by the Oil Conservation Division.

A. FACTS.

1. In Case No. 20580 Mewbourne applied for the pooling of the Bone Spring formation underlying the E2/E2 of Sections 10 and 15, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, for the purpose of drilling the Ibex 10/15 B1AP Fed. Com. Well No. 2H, API No. 30-025-46188 ("10/15 2H") and the Ibex 10/15 B3AP Fed. Com. Well No. 1H, API No. 30-025-46189 ("10/15 1H") (collectively, "10/15 Wells").¹

2. There are about 50 working interest owners in the Bone Spring formation in the E/2E/2 of Sections 10 and 15, including Tom M. Ragsdale ("Mr. Ragsdale"). Most working interest owners are subject to a JOA, but about 10 owners had to be force pooled, including Mr. Ragsdale. He received notice of the application in this case but did not enter an appearance.

3. The application in Case No. 20580 was heard on June 13 and 27, 2019, and Order No. R-20924 was entered on October 15, 2019.

4. Due to deadline in certain leasehold agreements, Mewbourne had to commence a well on the E/2E/2 of Sections 10 and 15 in July 2019.² The following occurred:

(a) Mewbourne commenced the Ibex 10/15 B1AP Fed. Com. Well No. 2H on July 7, 2019, but encountered lost circulation and other problems as explained in the affidavit of Travis Cude. **Mewbourne Exhibit 1.** Given the circumstances, Mewbourne believed it

¹ "B1" pertains to a First Bone Spring test, and "B3" pertains to a Third Bone Spring test.

² Mewbourne owned an interest in each quarter-quarter section the well unit, and had the right to drill the wells. **Tr. at 51.** In addition, Mewbourne had the right to drill its wells under *Bellett v. Grynberg*, 114 N.M. 690.

was prudent to junk the initial wellbore and skid the rig and spud the Ibex 10/15 B1AP Fed. Com. Well No. 2HY.

(b) The Ibex 10/15 B1AP Fed. Com. Well No. 2HY was commenced on July 26, 2019, several days within the plugging of the 2H well. As explained in Mr. Cude's affidavit, Mewbourne planned an additional string of intermediate casing based on the lost circulation experienced on the 2H well. Mewbourne again encountered lost circulation and other problems. Mewbourne backed off the drill string and junked the 2HY well.

5. Due to the drilling problems, Mewbourne decided to move the surface locations of both the wells to Section 15. However, because of the time it takes for the Bureau for Land Management to approve APDs, it was impossible to commence a substitute or replacement well immediately after the Ibex 10/15 B1AP Fed. Com. Well No. 2HY well was junked. **Mewbourne Exhibit 1, Tr. at 44, 49.**

6. In Case No. 20809 Mewbourne applied for the pooling of the Bone Spring formation underlying the E2/E2 of Sections 10 and 15, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, to also pool the Ibex 15/10 B1PA Fed. Com. Well No. 2H, API No. 30-025-47060 ("15/10 2H"), and the Ibex 15/10 B3PA Fed. Com. Well No. 1H, API No. 30-025-46948 ("15/10 1H") (collectively, "15/10 Wells"). The working interest owners in these wells are the same as in Case No. 20580. Mr. Ragsdale also received notice of Case No. 20809 but did not enter an appearance.

7. The Ibex 15/10 B1PA Fed. Com. Well No. 2H is simply a mirror well to the Ibex 10/15 B1AP Fed. Com. Well Nos. 2H and 2HY, and the drilling of the 10/15 2H, 10/15 2HY, and 15/10 2H well are a continuous operation.³ **Tr. at 44.** The 15/10 wells were successfully drilled, so MOC acted as a prudent and diligent operator to move surface locations. **Mewbourne Ex. No. 1, Tr. at 49-50.**

8. The application in Case No. 20809 was heard on October 3, 2019, and Order No. R-20924-A was entered on February 19, 2020. This order superseded the original order.

9. Mr. Ragsdale had knowledge of the status of the 10/15 wells and the 15/10 wells in September 2019. **Testimony of Karen Stanford, Tr. at 26-27, 28-20, 37.** He learned of the junked wells from his assignor, Ms. Anderson, with whom he has partnered with for years. **Tr. at 27, 29-30.**

10. Mr. Ragsdale also acquired an interest (subject to the JOA) from Tracy Anderson before Order No. R-20924-A was issued, and acquired well information from her. **Tr. At 26.**

11. On March 11, 2020, Mr. Ragsdale received an election notice and AFEs from Mewbourne under Order No. R20924-A for the 15/10 Wells. As explained by Mitch Robb, an election to participate merely requires a party to sign an AFE and e-mail it to the operator, which takes a couple minutes. **Hearing Transcript (Tr.) at 57.**

³ There is no issue as to the well costs for the Ibex 15/10 B3PA Fed. Com. Well No. 1H. **Tr. at 25.**

12. Mr. Ragsdale's elections were due by April 10, 2020, however, Mewbourne did not receive his elections by this deadline. As a result, Mr. Ragsdale was deemed a non-consenting party to the proposals under Order No. R-20924-A. Mr. Ragsdale has about 30 years inexperience in the oil and gas business. **Tr. at 24.** He has been pooled by Mewbourne by Mewbourne, and so has knowledge of polling applications. **Tr. at 55-56.**

13. Mr. Ragsdale did not raise any issue regarding the costs of the Ibex 15/10 B1PA Fed. Com. Well No. 2H after receipt of the election letter on March 10, 2020. Mr. Robb did not withhold any information from Mr. Ragsdale. **Mewbourne Exhibit 2, Tr. at 58.**

14. In a good-faith effort to work with Mr. Ragsdale, Mewbourne proposed certain stipulations for which it would still allow Mr. Ragsdale to participate in the 15/10 Wells in lieu of being treated as non-consenting for not making a timely election under Order No. R-20924-A. Mr. Ragsdale performed under the proposed stipulations for the 15/10 1H and was allowed participate with his interest, which he later sold. Mr. Ragsdale did not perform under the proposed stipulations for 15/10 2H and remains non-consenting.

15. No other working interest owners have objected to the AFE for the Ibex 15/10 B1PA Fed. Com. Well No. 2. **Tr. at 59.**⁴ Mr. Ragsdale has raised no issue as to the reasonableness of costs of the junked wells as incurred, except as to their inclusion in the 15/10 2H total well costs.

16. Even if the costs of the 10/15 2H and 2HY wells were disallowed, Mr. Ragsdale will remain a non-consenting interest owner in the 16/10 2H well.

B. ARGUMENT.

1. NMAC 19.15.13.8.B(4) states that if a pooled well is junked an operator may include reasonable costs to drill a substitute well if the "substitute well is located within 330 feet of the original well and the operator commences drilling within 10 days of the original well's abandonment." The statute does not specifically mention surface hole location ("SHL"), and Mewbourne's 15/10 2H is the same length, depth, target zone, lands, and ownership, as the 10/15 2H.⁵ The only thing that changed was that the first take point and last take point were flipped, and so the 15/10 2H well should be considered a substitute well, and the costs of the 10/15 2H and 2HY wells should be allowed to be recovered by Mewbourne.⁶

A pooling order is equivalent to a JOA. **Tr. at 87-88.** Thus, if a pooling order had been issued before the drilling of the 10/15 well was commenced, Mr. Ragsdale would have been

⁴ The JOA working interest owners are subject to the costs for the 10/15 2H, 10/15 2HY, and the 15/10 2H wells (**Tr. at ____**), so Mr. Ragsdale is not being treated unfairly.

⁵ New federal APDs were required due to the technicality of the SHL moving from Section 10 to Section 15.

⁶ According to the online statutes and New Mexico Administrative Code, available at "New Mexico Courts.com, NMAC 19.15.13.8 was adopted in December 2008, before horizontal drilling really started, so it is somewhat out of date.

responsible for the costs of the junked holes. NMAC 19.15.13.8.B(4). As a result, it doesn't matter whether Mr. Ragsdale is subject to two pooling orders, or only Order No. R-20924-A.

2. The APDs for the 15/10 wells took eight months to obtain from the BLM, which is a *force majeure* situation which prevented Mewbourne from drilling a 15/10 well within 10 days of junking the 10/15 2HY well. Thus, the drilling of the 10/15 2H, 10/15 2HY, and 15/10 2H well are one continuous operation. Therefore, even if the 15/10 2H well is not, strictly speaking, a substitute well, it is a replacement well under industry custom. **Tr. at 48, 78.** NMAC 19.15.13.8.B(1) allows the division to determine if the allowance of reasonable well costs "of all or some portion of historical costs of drilling is just and reasonable due to particular circumstances" for wells "previously abandoned without completion." That situation applies in this case, and again the costs of the 10/15 2H and 2Y wells should be deemed reasonable well costs under the pooling statute and be allowed to be recovered by Mewbourne.

3. **NMSA 1978 §70-2-17(C)** states "Each order shall describe the lands included in the unit designated thereby, identify the pool or pools to which it applies and designate an operator for the unit." Thus the lands are pooled, not specific wells. Also, pooling can occur before, during, or after drilling. **Id.** Therefore, the fact that Mr. Ragsdale was not sent a pooling election until March 2020 is of no moment.

4. No reason has been shown by Mr. Ragsdale justifying revocation of Order No. R-20924-A, so the sole issue is whether reasonable well costs for the 15/10 2H well and its predecessor wells.

5. If the costs for plugging the 10/15 2H attempts are not deemed reasonable costs to be included in the 15/10 2H, Mr. Ragsdale should still be treated as a non-consent owner under Order No. R-20924-A for the 15/10 2H due to failure to make a timely election.

C. PROPOSED FINDINGS AND CONCLUSIONS

1. Mewbourne requests the the matters set forth in Part A above be considered its proposed findings.

2. Mewbourne proposes the following conclusions:

(a) The costs Mewbourne requested for the 15/10 2H well are fair and reasonable, under NMAC 19.15.13.8.B(4) or NMAC 19.15.13.8.B(1).

(b) No reason has been shown by Mr. Ragsdale justifying revocation of Order No. R-20924-A, so the sole issue is whether reasonable well costs for the 15/10 2H well and its predecessor wells.

(c) Other conclusions are set forth in Part B above.

WHEREFORE, Mewbourne respectfully requests the Division to deny Mr. Ragsdale's application.

Respectfully submitted,



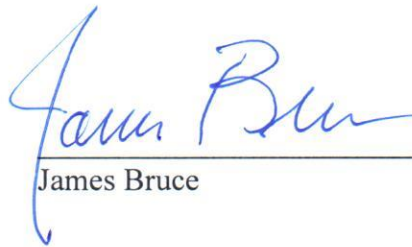
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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 26th day of October, 2020 by e-mail:

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