

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. 10961
ORDER NO. R-10121

**APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY POOLING
AND UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 28, 1994, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 27th day of May, 1994, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premisses,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Mewbourne Oil Company (Mewbourne), seeks an order pooling all mineral interests from 500 feet below the top of the San Andres formation to the base of the Morrow formation underlying the S/2 for all formations developed on 320-acre spacing, the SE/4 for all formations developed on 160-acre spacing, the E/2 SE/4 for all formations developed on 80-acre spacing and the NE/4 SE/4 for all formations developed on 40-acre spacing within Section 20, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico.

(3) The applicant proposes to dedicate this pooled unit to its Chalk Bluff Draw Prospect Illinois Camp "20" State Well No.2 to be drilled at an unorthodox gas well location 1650 feet from the South line and 990 feet from the East line (Unit I) of Section 20 to test any and all formations in the pooled interval to the base of the Morrow formation, North Illinois Camp-Morrow Gas Pool. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling and completing said well.

(4) The applicant is an interest owner in the S/2 of said Section 20 and has the right to develop the minerals underlying the aforementioned spacing units.

(5) Said location is unorthodox for a 320-acre spacing unit pursuant to Division General Rule 104.B(1)(a), but is standard for 160, 80, and 40-acre spacing.

(6) The applicant's landman testified that approximately 33.5% of the working interest owners in the 320-acre unit have agreed to pool their interests. The remaining working interest owners are Texaco, Kaiser-Francis, Louis Dreyfus, and the Estate of Leonard Nichols, Deceased. Participation and farmout agreements are being discussed with these companies. Agreement with the Nichols Estates is expected as soon as an executor is appointed.

(7) The applicant presented a structure map, an isopach map, a cross-section and offset completion and production information to show that the proposed well is expected to be commercially productive in the Morrow formation. The proposed Morrow well is expected to cost a total of \$744,694.

(8) Applicant's exhibits show that the proposed unorthodox location is required because of pipelines and electric lines in the area. The applicant's isopach map shows that the unorthodox location will encounter greater sand thickness than the orthodox locations on the lease.

(9) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said units the opportunity to recover or receive without unnecessary expense his just and fair share of the production in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said 320-acre, 160-acre, 80-acre, and 40-acre units.

(10) The applicant should be designated the operator of the subject well to be drilled at the aforementioned unorthodox gas well location.

(11) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(12) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(13) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(14) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(15) At the time of the hearing, the applicant proposed that the reasonable monthly fixed charges for supervision while drilling and producing said well should be set at \$6167.00 and \$626.50, respectively.

(16) \$6167.00 per month while drilling and \$626.50 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(17) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(18) Upon the failure of the operator of said pooled units to commence drilling of the well to which said unit is dedicated on or before September 1, 1994, the order pooling said unit should become null and void and of no further effect whatsoever.

(19) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(20) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(21) Kaiser-Francis Oil Company appeared at the hearing through counsel and questioned the applicant's witnesses concerning the terms of offers to working interest owners and the basis for selecting the proposed location. No other operator or interest owner appeared at the hearing in opposition to the application.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from 500 feet below the base of the San Andres formation to the base of the Morrow formation underlying the following described acreage in Section 20, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled within said vertical extent in the following manner: the S/2 forming a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing, which presently includes but is not necessarily limited to the North Illinois Camp-Morrow Gas Pool, the SE/4 forming a standard 160-acre spacing and proration unit for any and all formations developed on 160-acre spacing, the E/2 SE/4 for any and all formations and/or pools developed on 80-acre spacing and the NE/4 SE/4 for any and all formations and/or pools developed on 40-acre spacing.

(2) Said units are to be dedicated to applicant's Illinois Camp "20" State Well No.2 to be drilled at an unorthodox gas well location 1650 feet from the South line and 990 feet from the East line (Unit I) of said Section 20. Said unorthodox gas well location is hereby authorized.

PROVIDED HOWEVER THAT, the operator of said units shall commence the drilling of said well on or before the 1st day of September, 1994, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the formations within the above described vertical interval.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 1st day of September, 1994, Decretory Paragraphs Nos. (1) and (2) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraphs Nos. (1) and (2) of this order should not be rescinded.

(3) Mewbourne Oil Company is hereby designated the operator of the subject well and units.

(4) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(5) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(6) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(7) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

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

- (a) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (b) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(9) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(10) \$6167.00 per month while drilling and \$626.50 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the

operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(11) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(12) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

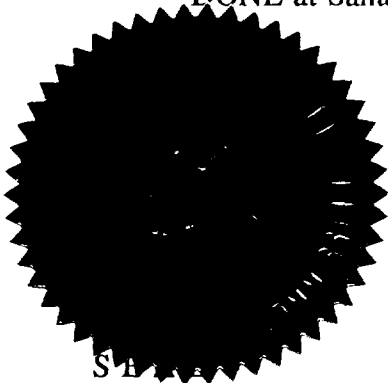
(13) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

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

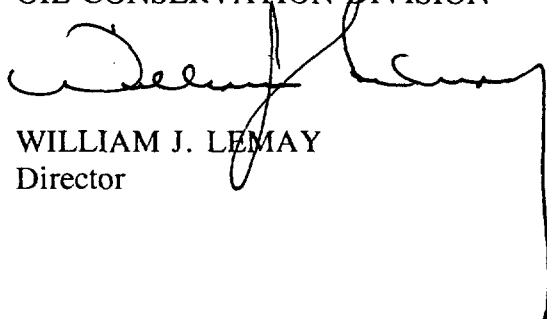
(15) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(16) Jurisdiction of this cause 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


WILLIAM J. LEMAY
Director