

**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. 13032
ORDER NO. R-11945**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 27, 2003, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 28th day of April, 2003, 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, ("Applicant"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation (excluding the Atoka formation), underlying the W/2 of Section 11, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, in the following manner:

The W/2, forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include, but are not necessarily limited to, the Undesignated Alcaran Hills-Wolfcamp Gas Pool, Undesignated Cedar Hills-Upper Pennsylvanian Gas Pool, Burton Flat-Strawn Gas Pool and Burton Flat-Morrow Gas Pool.

The SW/4, forming a standard 160-acre gas spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent, including but not necessarily limited to the East Avalon-Bone Spring Gas Pool.

The SW/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to the Northwest Fenton-Delaware Pool, East Avalon-Bone Spring Pool and Undesignated Magruder-Yates Pool.

(3) The above-described units ("the Units") are to be dedicated to Applicant's existing Esperanza 11 State Com. Well No. 1 (API No. 30-015-32414), located at a standard gas well location, and an unorthodox oil well location, 1,010 feet from the South line and 660 feet from the West line (Unit M) of Section 11. The application also seeks approval of the unorthodox oil well location.

(4) Two or more separately owned tracts are embraced within each of the Units, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in each of the Units that are separately owned.

(5) Applicant is an owner of an oil and gas working interest within each of the Units. Applicant has the right to drill and has drilled its Esperanza 11 State Com. Well No. 1 ("the well") to a common source of supply at a standard gas well location in the SW/4 SW/4 of Section 11.

(6) There are interest owners in each of the Units that have not agreed to pool their interests.

(7) 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 mineral interests, whatever they may be, within the Units.

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

(9) Any pooled working interest owner who does not pay its share of actual well costs as herein provided should have withheld from production its share of reasonable well costs plus an additional 100% thereof as a reasonable charge for the risk involved in drilling the well.

(10) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 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*."

(11) Applicant requested that administrative notice be taken in this case of the record in Case No. 12928, a previous application for compulsory pooling of the same land, which was heard by the Division on September 19, 2002 and October 24, 2002.

(12) The evidence presented in Case No. 12928 indicated that there then existed a well within the 320-Acre Unit that was producing gas from the Wolfcamp, being Southwest Royalty Corporation's Wilderspin Well No. 1 (API No. 30-015-21031), located in the SE/4 NW/4 (Unit F) of Section 11, and dedicated to a N/2 spacing unit.

(13) Applicant presented testimony in Case No. 12928 that an agreement existed between Applicant and Southwest Royalty Corporation to the effect that the Wilderspin No. 1

completion in the Wolfcamp would be plugged in the event Applicant determined to complete the well in the Wolfcamp.

(14) To avoid the creation of overlapping spacing units, the dedication of the well to a W/2 unit in the Wolfcamp should be made contingent upon the plugging of the Wolfcamp completion of the Wilderspin Well No. 1.

(15) Regarding the request for approval for an unorthodox oil well location for the well, Applicant presented testimony in Case No. 12928 that:

- (a) drilling of a well solely as an oil prospect on the subject property would not be economically justified;
- (b) the most prospective formation on the subject property is the Morrow;
- (c) the originally selected location for the well, which was selected based on optimal geology for a Morrow prospect, was 660 feet from the West line and 990 feet from the South line of Section 11, but that location could not be utilized due to the presence of an archeological site on the surface;
- (d) the location 1,010 feet from the South line was the closest point to the originally selected location that could be utilized without interference with the archeological site; and
- (e) Applicant and the parties whose interests are proposed to be pooled in this case are the only affected persons in the adjoining oil spacing unit to the north (NW/4 SW/4) towards which the unorthodox oil well location of the well encroaches.

(16) No person filed any objection to the unorthodox oil well location or appeared at the hearing in opposition thereto.

(17) Approval of the unorthodox oil well location of the well will serve the prevention of waste and will not impair correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company, all uncommitted mineral interests from the surface to the base of the Morrow formation (excluding the Atoka formation) underlying the W/2 of Section 11, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, are hereby pooled, as follows:

- (a) The W/2, forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent which presently include but are not necessarily limited to the Undesignated

Alcaran Hills-Wolfcamp Gas Pool, Undesignated Cedar Hills-Upper Pennsylvanian Gas Pool, Burton Flat-Strawn Gas Pool and Burton Flat-Morrow Gas Pool.

- (b) The SW/4, forming a standard 160-acre gas spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent, including but not necessarily limited to the East Avalon-Bone Spring Gas Pool.
- (c) The SW/4 SW/4, forming a standard 40-acre oil spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent, including but not necessarily limited to the Northwest Fenton-Delaware Pool, East Avalon-Bone Spring Pool and the Undesignated Magruder-Yates Pool.

The Units shall be dedicated to Applicant's Esperanza 11 State Com. Well No. 1 (API No. 30-015-32414), located at a standard gas well location, and an unorthodox oil well location, 1,010 feet from the South line and 660 feet from the West line (Unit M) of Section 11, provided that the dedication of the well to the 320-Acre Unit as to the Wolfcamp formation shall be contingent upon the plugging of the existing Wolfcamp completion of Southwest Royalty Corporation's Wilderspin Well No. 1 (API No. 30-015-21031), located in the SW/4 NW/4 (Unit F) of Section 11.

- (2) The unorthodox oil location of the well is hereby approved.
- (3) Upon final plugging and abandonment of the well, the force-pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.
- (4) Applicant is hereby designated the operator of the well and of the Units.
- (5) 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 Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of actual costs of drilling, completing and equipping the well ("well costs").
- (6) Within 30 days from the date the schedule of actual well costs is furnished, any pooled working interest owner shall have the right to pay its share of actual 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 actual 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 actual wells costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(7) 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 notice and hearing.

(8) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of actual well costs in advance as provided above shall receive from the operator the amount, if any, that the actual well costs that it has paid exceeds its share of reasonable well costs.

(9) 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, 100% of the above costs.

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

(11) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 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 each pooled working interest owners.

(12) Except as provided in Ordering Paragraphs (9) and (11) above, 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 of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

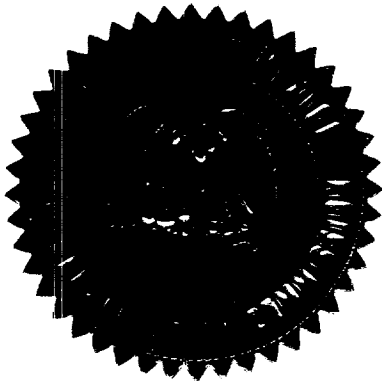
(13) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

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

(16) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director