



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

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

September 6, 1990

Mewbourne Oil Company
c/o Hinkle, Cox, Eaton, Coffield & Hensley
500 Marquette, NW
Suite 800
Albuquerque, NM 87102-2121

Attention: James Bruce

Administrative Order NSL-2856

Dear Mr. Bruce:

Reference is made to your application on behalf of Mewbourne Oil Company for a non-standard gas well location for your Loco Hills State Well No. 1 to be located 990 feet from the South line and 660 feet from the West line (Unit M) of Section 2, Township 18 South, Range 30 East, NMPM, Cedar Lake Morrow Gas Pool, Eddy County, New Mexico.

It is our understanding that said well is to be a replacement well for Mewbourne's State "CE" Well No. 1 located at a standard gas well location 1980 feet from the North line and 1880 feet from the West line (Unit F) of said Section 2, which is currently producing approximately 40 MCF of gas per day from the Middle Morrow zone of said pool. The replacement well is to be situated at a more structurally advantageous position within the Lower Morrow formation thereby increasing the likelihood of encountering a thickness of Lower Morrow Sand sufficient to make a commercial well.

By the authority granted me under the provisions of General Rule 104 (III) the above-described unorthodox gas well location is hereby approved. Further, the existing standard 320.82-acre gas spacing and proration unit comprising Lots 3 and 4, the S/2 NW/4 and SW/4 (W/2 equivalent) of said Section 2 shall be dedicated to the well.

HOWEVER, should the Loco Hills State Well No. 1 encounter any gas production whatsoever, the existing State "CE" Well No. 1 shall cease production from the subject pool, whereby the operator must comply with the provisions set forth by General Rule 104.C.II, Division Memorandum dated July 27, 1988, and Division Memorandum dated August 3, 1990 (see attached).

Mewbourne Oil Company

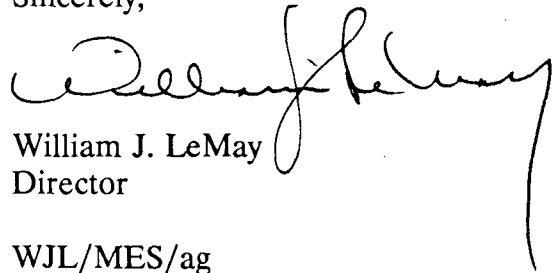
Attn: James Bruce

September 6, 1990

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Jurisdiction of this matter is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "William J. LeMay". The signature is fluid and cursive, with a long, sweeping underline that extends below the printed name.

William J. LeMay
Director

WJL/MES/ag

cc: Oil Conservation Division - Artesia
NM State Land Office - Santa Fe

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MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND
REGULATIONS

DATE: AUGUST 3, 1990

On July 27, 1988, we sent a memorandum to all operators to explain the Division's procedures for ensuring compliance with the above rule in handling applications for additional wells on existing proration units. The procedures are primarily applicable in unprorated gas pools.

The final paragraph of the July 27 memo reads as follows:

"Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced."

Additional explanation of the intent of the above paragraph is set out below:

Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of the producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules, and the reasons for the request. Notice should be provided to offset operators in the usual manner, allowing a 20-day waiting period. The application should be sent to Santa Fe with a copy to the appropriate District office.



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MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: JULY 27, 1988

There has been some confusion about interpretation of the subject rule. In each paragraph of sections (a), (b) and (c) the rule states:

"Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a tract..."

My interpretation of this sentence is that each well is to be located on its own individual specified unit and an additional well is not authorized simply by meeting the set back requirements of the rule.

This interpretation is necessary to prevent waste from the drilling of unnecessary wells and to protect correlative rights of all parties in the pool. Since the prorated pools have special pool rules the subject rules have greater impact on unprorated gas. Unprorated does not mean unregulated. Allowables are not issued in unprorated pools and the only method available to protect correlative rights is the control of well density and locations. Added well density required because of special geological situations can be addressed by special pool rules after notice and hearing.

Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

dr/