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2005 SEP 6 PM 1 55

September 6, 2005

Hand delivered

Richard Ezeanyim
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13,484/Edge Petroleum Exploration Company
Compulsory pooling/S½ §28-19S-32E

Dear Mr. Ezeanyim:

You asked me to report on the status of this case: At the hearing, the applicant sought to pool Amity Oil Co., Inc. and Magnum Hunter Production, Inc.[1] The applicant has now entered into a written agreement with Magnum Hunter Production, Inc., and it may be dismissed form this case. However, it has not received any response from Amity Oil Co., Inc., and so a pooling order is necessary. Thank you for your consideration of this matter.

Very truly yours,

James Bruce

Attorney for Edge Petroleum Exploration Company

cc: J. Scott Hall

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[1] Magnum Hunter Production, Inc. was also referred to at hearing as Cimarex Energy Co. and Gruy Petroleum Management Co., which are sister corporations.

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9/6/05

Re: Case 13,484

Richard --

Enclosed is an order granting similar relief as sought in this case. If you want me to submit a proposed order by e-mail, let me know.

Jim Bruce

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. 13359
ORDER NO. R-12283

APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 21 and on December 2, 2004, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 15th day of February, 2005, 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 its subject matter.

(2) Mewbourne Oil Company ("Mewbourne" or "Applicant") seeks an order pooling all uncommitted mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 9, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, in the following manner:

> **(a)** the N/2 to form a standard 320-acre lay-down gas spacing unit ("the 320-acre Unit") for any and all formations and/or pools developed on 320-acre spacing within that vertical extent [see Division Rule 104.C (2)], which presently include but are not necessarily limited to the Undesignated Osudo-Morrow Gas Pool (**82120**) and Undesignated South Osudo-Morrow Gas Pool (**82200**);

(b) the NE/4 to form a standard 160-acre gas spacing unit ("the 160-acre Unit") for any and all formations and/or pools developed on 160-acre spacing within that vertical extent and pursuant to Division Rule 104.C (3), which presently include but are not necessarily limited to the Undesignated South Osudo-Wolfcamp Gas Pool (**82280**) and Undesignated Wilson-Wolfcamp Gas Pool (**87560**), both of which were created and defined prior to November 1, 1975 (see the Division Director's notice to all operators, mineral interest owners, and interested parties dated October 25, 1999), and the Undesignated Wilson-Yates Seven Rivers Associated Pool (**64600**), which pool is governed by the provisions of the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico*," as promulgated by Division Order No. R-5353, as amended, and the "*Special Rules and Regulations for the Wilson Yates-Seven Rivers Associated Pool*," as promulgated by Division Order No. R-9645; and

(c) the SE/4 NE/4 (Unit H) to form a standard 40-acre oil spacing and proration unit ("the 40-acre Unit") for any and all formations and/or pools developed on 40-acre spacing within that vertical extent and pursuant to Division Rule 104.B (1), which presently include but are not necessarily limited to the Undesignated Osudo-Wolfcamp Pool (**48140**) and Undesignated Osudo-Strawn Pool (**48120**), and the Undesignated Eumont Gas Pool (**22800**), which pool is governed by the provisions of the "*Special Pool Rules for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001.

(3) The three above-described Units ("the three Units") are to be dedicated to the Applicant's proposed Osudo "9" State Com. Well No. 1 (**API No. 30-025-36828**) to be drilled at a standard location for all three of the above-described Units 1980 feet from the North line and 660 feet from the East line of Section 9.

(4) Mr. James D. Finley of Fort Worth, Texas ("Finley") and Chesapeake Operating, Inc. of Oklahoma City, Oklahoma ("Chesapeake"), who own interests in the N/2 of Section 9, entered appearances in this matter. Finley presented a witness at the second hearing in this case.

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

(6) Applicant is an owner of an oil and gas working interest within the three Units and therefore has the right to drill for and develop the minerals underlying these Units.

(7) At this time, however, not all of the interest owners within the N/2 of Section 9 have agreed to pool their interests.

(8) The testimony presented in this case shows the following:

(a) The lands being pooled are comprised of two tracts of state lands, being the NW/4 of Section 9 (State Lease No. V-07049-0001) and the NE/4 of Section 9 (State Lease No. E-01732-0009);

(b) Since the start of these proceedings, Chesapeake, who at the time was the sole working interest owner of the NW/4 of Section 9, has voluntarily executed an operating agreement with Applicant, designating Applicant as operator of the proposed well; therefore, that portion of this case seeking to pool 320-acre Units may be dismissed;

(c) The NE/4 of Section 9 is depth severed with rights from the surface to 10,000 feet being owned by Finley as to a 96.875% working interest and Applicant as to the remaining 3.125% working interest; for depths below 10,000 feet, Applicant owns 100% of the working interests;

(d) Chesapeake voluntarily signed an operating agreement with Mewbourne, under which it acquired one-half of Applicant's 3.125% working interest in the NE/4 of Section 9 above 10,000 feet subsurface, and Chesapeake has voluntarily agreed that the Applicant be the operator as to those depths;

(e) Subsequent to Chesapeake signing an operating agreement with Mewbourne, Finley and Chesapeake entered into an agreement to share their interests in the N/2 of Section 9; therefore, Finley is subject to the operating agreement to the extent of his interest derived from Chesapeake;

(f) As a result, Finley's interest in the NE/4 of Section 9 above 10,000 feet is not subject to a voluntary agreement, except for the interest he derives from Chesapeake, if any; and

(g) Applicant has been negotiating with Finley since July, 2004 to obtain a voluntary joinder in the proposed well.

(9) At the hearing, Mewbourne requested that the uncommitted working interest in the NE/4 of Section 9 above 10,000 feet be pooled only for a completion attempt in an up-hole zone, spaced on 40 or 160 acres, which occurs within 120 days of well commencement under the ordering provisions of this order. Applicant proposes that the uncommitted interest be asked to pay its share of drilling costs from the surface to 100 feet below the deepest perforation if there is such a completion attempt; the uncommitted interest will not be responsible for the costs of pipe, logs, etc. that are associated with operations or completion attempts which have previously been attempted in the wellbore below 10,000 feet; and because an up-hole completion attempt is time sensitive, Applicant further requested that Finley be required to make an election on a completion attempt above 10,000 feet within 48 hours from the time a schedule of costs is furnished to him if there is a well on location, and 30 days if there is not a rig on location.

(10) The time periods set forth above conform to the time periods contained within the operating agreement agreed to by Chesapeake.

(11) Finley testified that he did not comprehend Applicant's operating agreement, yet: (i) never contacted Applicant to discuss or clarify the provisions of the operating agreement; and (ii) acquired an interest from Chesapeake subject to the operating agreement and will be subject to its terms as to all of the working interest below 10,000 feet, and a portion of the working interest above 10,000 feet.

(12) Finley further objected to being responsible for almost all well costs in a completion attempt above 10,000 feet; however: (i) Applicant is requesting that all costs of drilling the proposed well to a depth below 10,000 feet are to be initially borne by the owners of these rights; however, if a completion is attempted in a formation lying above 10,000 feet subsurface within a reasonable time period, then the working interest owners of the rights above 10,000 feet shall bear only their proportionate shares of drilling and completion costs from the surface to 100 feet below the deepest perforation; (ii) Finley, through testimony, believes there are no prospective zones above 10,000 feet; (iii) Finley will receive copies of all well logs on which it can make an election decision; (iv) Applicant is also requesting that the interest owners above 10,000 feet shall not be responsible for costs of pipe, logs, etc. that are associated with operations or completion attempts within the wellbore below 10,000 feet; and (v) Finley has the right to elect to non-consent a shallow completion, under either an operating agreement or a pooling order. Furthermore, Finley has proposed no alternative cost allocation for a completion attempt above 10,000 feet.

(13) The cost allocation formula proposed by Applicant for a completion attempt above 10,000 feet is fair and reasonable, and should be adopted in this case.

(14) Finley requested that Chesapeake be designated operator of the well if it is completed above 10,000 feet. However, Applicant is a qualified operator, and Chesapeake has already signed an operating agreement designating Applicant as operator. Therefore, Finley's request should be **denied**.

(15) Finley also requested that the pooling application be denied. The pooling statute, NMSA 1978 §70-2-17.C, provides that if the owners cannot voluntarily agree, the Division shall pool all interests. Approval of this application containing Mewbourne's timing provisions is in the best interest of conservation.

(16) To avoid the drilling of unnecessary wells, protect correlative rights, and afford to the owner of each interest in the proposed 40-acre oil and 160-acre gas spacing Units ("the two Unit") 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 these two Units.

(17) Applicant should be designated the operator of the subject well and of the two Units.

(18) 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 Osudo "9" State Com. Well No. 1.

(19) Reasonable charges for supervision (combined fixed rates) should be fixed at $ 5,000.00 per month while drilling and $ 500.00 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.*" The operator should be 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 non-consenting working interest.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company ("Mewbourne" or "Applicant"), all uncommitted mineral interests, whatever they may be, from the surface to 10,000 feet subsurface underlying the following described acreage in Section 9, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, are hereby pooled, as follows:

(a) the NE/4 to form a standard 160-acre gas spacing unit ("the 160-acre Unit") for any and all formations and/or pools developed on 160-acre spacing within that vertical extent and pursuant to Division Rule 104.C (3), which presently include but are not necessarily limited to the Undesignated South Osudo-Wolfcamp Gas Pool (**82280**) and Undesignated Wilson-Wolfcamp Gas Pool (**87560**), both of which were created and defined prior to November 1, 1975 (see the Division Director's notice to all operators, mineral interest

owners, and interested parties dated October 25, 1999), and the Undesignated Wilson-Yates Seven Rivers Associated Pool (**64600**), which pool is governed by the provisions of the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico*," as promulgated by Division Order No. R-5353, as amended, and the "*Special Rules and Regulations for the Wilson Yates-Seven Rivers Associated Pool*," as promulgated by Division Order No. R-9645; and

(b) the SE/4 NE/4 (Unit H) to form a standard 40-acre oil spacing and proration unit ("the 40-acre Unit") for any and all formations and/or pools developed on 40-acre spacing within that vertical extent and pursuant to Division Rule 104.B (1), which presently include but are not necessarily limited to the Undesignated Osudo-Wolfcamp Pool (**48140**) and Undesignated Osudo-Strawn Pool (**48120**), and the Undesignated Eumont Gas Pool (**22800**), which pool is governed by the provisions of the "*Special Pool Rules for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001.

The two above-described 40-acre oil and 160-acre gas spacing Units ("the two Units") are to be dedicated to the Applicant's proposed Osudo "9" State Com. Well No. 1 (**API No. 30-025-36828**) to be drilled at a standard location for both Units 1980 feet from the North line and 660 feet from the East line of Section 9.

(2) The portion of the application requesting to pool the N/2 of Section 9 to form a standard 320-acre lay-down gas spacing unit for any and all formations and/or pools developed on 320-acre spacing is hereby **dismissed**.

(3) The operator of the two Units shall commence drilling the proposed well on or before April 30, 2005, and shall thereafter continue drilling the well with due diligence to a depth sufficient to test the Morrow formation.

(4) In the event the operator does not commence drilling the proposed well on or before April 30, 2005, Ordering Paragraph No. (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the proposed well not be drilled, and a completion attempt be made above 10,000 feet subsurface, within 120 days after commencement thereof, Ordering Paragraph No. (1) shall be of no further effect, and the two Units created by this order shall terminate unless the operator appears before the Division Director and obtains an extension of time to complete the well for good cause demonstrated by satisfactory evidence.

(6) Upon final plugging and abandonment of the subject well, the two-pooled Units created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) Mewbourne is hereby designated the operator of the proposed well and of the two Units.

(8) 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 two Units, including unleased mineral interests, who are not parties to an operating agreement governing the two Units.) After the effective date of this order, and if within the time period specified in Ordering Paragraph No. (5) above, a completion is attempted above 10,000 feet, the operator shall furnish the Division and each known pooled working interest owner in the two Units an itemized schedule of estimated costs of drilling, completing and equipping the subject well ("well costs"); provided, however, if the operator has actual data on drilling costs, that data shall be used in lieu of estimated well costs.

(9) All costs of drilling the proposed well to a depth below 10,000 feet shall be initially borne by the owners of these rights; however, if a completion is attempted in a formation lying above 10,000 feet subsurface within the time permitted by Ordering Paragraph No. (5), then the working interest owners of the rights above 10,000 feet shall bear their proportionate shares of drilling and completion costs from the surface to 100 feet below the deepest perforation lying above 10,000 feet. The interest owners above 10,000 feet shall not be responsible for costs of pipe, logs, etc. that are associated with operations or completion attempts which have previously been attempted in the wellbore below 10,000 feet.

(10) Within the time set forth below that the schedule of estimated drilling costs, or schedule of actual drilling costs, on a completion attempt above 10,000 feet subsurface 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." The election of a pooled working interest owner shall be made: (i) within 48 hours if a rig is on location; or (ii) within 30 days if no rig is on location, from the time that the schedule is furnished, whether by facsimile transmission, U.S. Mail, or overnight delivery, at operator's option.

(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 which exceed estimated well costs and shall receive from the operator the amount, if any, that the estimated well costs it has paid which exceed its share of reasonable well costs.

(13) 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, 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) are hereby fixed at $ 5,000.00 per month while drilling and $ 500.00 per month while producing, provided that this rate shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is hereby 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 non-consenting working interest.

(16) Except as provided in Ordering Paragraphs No. (13) and (15) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Lea 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.

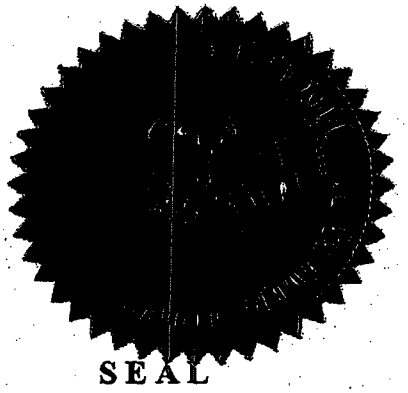
(17) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8)-royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working 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 subsequent to entry of this order, that portion of this order authorizing compulsory pooling shall thereafter be of no further effect.

(19) The operator of the well and the two Units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P. E.
Director