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July 19, 1996

HAND-DELIVERED

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco
Santa Fe, New Mexico 87505

RECEIVED

JUL 19 1996

Oil Conservation Division

Re: Oil Conservation Division Case No. 11521:
Application of Nearburg Exploration Company, L.L.C. for compulsory
pooling, Eddy County, New Mexico; and

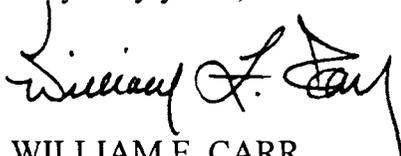
Oil Conservation Division Case No. 11533:
Application of Mewbourne Oil Company for compulsory pooling and an
unorthodox well location, Eddy County, New Mexico

Dear Mr. Stogner:

Pursuant to your request, enclosed please find Mewbourne Oil Company's proposed Order
in the above-captioned cases.

If you require anything further from Mewbourne to proceed with your consideration of this
matter give me a call.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosure

cc: W. Thomas Kellahin, Esq. (w/enclosure)
Steve Cobb

**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. 11521

**APPLICATION OF NEARBURG
EXPLORATION COMPANY, L.L.C.
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO**

RECEIVED

JUL 19 1996

Oil Conservation Division

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

CASE NO. 11533

ORDER NO. R-_____

**MEWBOURNE OIL COMPANY'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 13, 1996 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of July, 1996, the Division Director, having considered the testimony, the recorded and the recommendations of the Examiner, and being fully advised in the premises,

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) At the time of hearing Division Case Nos. 11521 and 11533 were consolidated for the purpose of presenting testimony. Inasmuch as the cases involve the same acreage and approval of one application necessarily affects the decision in the other case, one order should be entered for both cases.

(3) The applicant in Case 11521, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 of Section 4, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Illinois Camp-Morrow Gas Pool or, in the alternative, forming a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Empire-Abo Pool or the Empire Wolfcamp Pool. Said unit is to be dedicated to its proposed Hummer "4" State Com Well No. 1 to be drilled at a standard gas well location within the NW/4 NE/4 (Unit B) of Section 4.

(4) The applicant in Case No. 11521, Mewbourne Oil Company ("Mewbourne"), seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the N/2 for all formations developed on 320-acre spacing, the NW/4 for all formations developed on 160-acre spacing, the S/2 NW/4 for all formations developed on 80-acre spacing, and the SW/4 NW/4 for all formations developed on 40-acre spacing all in Section 4, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico. Mewbourne proposes to dedicate these spacing or proration units to its proposed Scoggin Draw "4" State Com Well No. 1 to be drilled at an unorthodox location 1650 feet from the North line and 990 feet from the West line of Section 4 to a depth sufficient to test all formations from the surface to the base of the Morrow formation, Undesignated Illinois Camp-Morrow Gas Pool.

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(5) Both Mewbourne and Nearburg have the right to drill a well in the N/2 of Section 4, but each seeks a different location.

(6) Mewbourne and Nearburg have been unable to reach a voluntary agreement as to which location should be drilled within the N/2 of Section 4.

(7) Both parties agreed at the hearing that overhead rates of \$6000.00 while drilling and \$600.00 while producing should be adopted in this case. In addition, both parties proposed that a risk penalty of 200 percent be assessed against any non-consenting interest owners.

(8) The ownership within the N/2 of Section 4 as to the relevant potential producing depth is outlined as follows:

(a)	Nearburg Exploration Company, L.L.C.	14.06250%
(b)	Mewbourne Oil Company	37.50000%
(c)	Arco Permian Corporation	6.25000%
(d)	Amoco Production Company	6.25000%
(e)	OXY USA Inc.	25.00000%
(f)	Fina Oil and Chemicals	09.37500%
(g)	Earl R. Bruno	00.78125%
(h)	Robert H. Marshall	00.78125%

(9) In excess of 70% of the working interest owners have agreed to participate in the well Mewbourne has proposed and only 14% have agreed to participate in the well proposed by Nearburg.

(10) Nearburg has proposed that Mewbourne be allowed the first opportunity to drill its preferred location, and that if Mewbourne fails to timely commence its well, or in the event it is not commercially productive in the Morrow formation, that Nearburg then be given the opportunity to drill a well at its preferred location.

(11) Mewbourne agreed with the Nearburg proposal on the condition that it be authorized to develop the spacing unit under a standard pooling order which authorizes Mewbourne to commence drilling with 90-days of the date of the order unless that time

period is extended for good cause shown.

(12) Nearburg requests that the resulting pooling orders require Mewbourne to drill within 90-days of the date of the order and that there be no provision in the order for extensions beyond the original 90-day commencement period.

(13) To provide a comprehensive solution for the exploration of this spacing and proration unit, Mewbourne and the parties who have elected to participate with it (which own in excess of 70% of the working interest in the tract) should be provided the first opportunity to develop this spacing unit by drilling a well at their preferred location pursuant to a standard pooling order.

(14) If Mewbourne is unable to drill to completion in accordance with the provisions of this order, or drills and then abandons its well, all interests in this spacing or proration unit should be pooled under a standard pooling order and Nearburg designated operator of a well to be drilled at its proposed location.

(15) The proposed Mewbourne location is an unorthodox well location encroaching towards the West on a spacing unit operated by Phillips Petroleum Company in which Enron Oil & Gas Company ("Enron") owns working interests. Enron appeared at the hearing through counsel and waived objection to this location provided a production penalty is adopted whereby the Mewbourne well shall not be allowed to produce in excess of 3,000 MCFG/D at any time during the producing life of the well.

(16) The evidence shows that the recommended penalty will prevent drainage from offsetting spacing units thereby protecting correlative rights and the proposed unorthodox Mewbourne location 1650 feet from the North line and 990 feet from the West line of Section 4 and the recommended production limitation of 3,000 MCFG/D should be approved.

(17) To avoid the drilling of unnecessary wells, to protect correlative rights, to avoid waste, and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the production in any pool completion resulting from this order, the application of Mewbourne should be approved by pooling all mineral interests, whatever they may be, within said unit subject to the terms and

conditions set forth below.

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

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

(20) Any non-consenting working 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.

(21) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its 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.

(22) \$6000.00 per month while drilling and \$600.00 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 such 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 operation of the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(23) 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.

(24) Upon failure of Mewbourne to drill its proposed well to completion or at the proposed unorthodox well location pursuant to the provisions of this order or, following the abandonment of this well by Mewbourne, whichever occurs first, Nearburg shall be

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designated the operator of the spacing unit and shall be authorized to drill its proposed well pursuant to the provisions of this pooling order.

(25) The operator(s) of the 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 the order.

IT IS THEREFORE ORDERED THAT:

(1) All minerals interests, whatever they may be, from the surface to the base of the Morrow formation underlying the following described acreage in Section 4, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner: the N/2 to form a standard 320-acre spacing and proration unit for any and all pools developed on 320-acre spacing within said vertical extent which presently includes the Illinois Camp-Morrow Gas Pool; the NW/4 to form a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent which presently includes the Empire-Abo Pool and the Empire-Wolfcamp Pool; and the S/2 NW/4 to form a standard 80-acre spacing and proration unit for any and all formations and/or pools developed on 80-acre spacing within said vertical extent. All units shall be dedicated to Mewbourne Oil Company's proposed Scoggin Draw "4" State Com Well No. 1 to be drilled at an unorthodox well location 1650 feet from the North line and 990 feet from the West line of said Section 4.

PROVIDED HOWEVER THAT, Mewbourne as operator shall commence the drilling of said well within 90-days of the date of this order and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

PROVIDED FURTHER THAT, in the event Mewbourne does not commence drilling operations on the Scoggin Draw "4" State Com Well No. 1 within 90-days of the date of this order, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless Mewbourne obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandoned within 120-days after commencement thereof, Mewbourne shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

PROVIDED FURTHER THAT, should Mewbourne fail to drill in accordance with the provisions of this order, or on the abandonment thereof, Nearburg shall become the designated operator of this spacing or proration unit and shall be authorized to drill a well at its proposed location within 90-days of the date Mewbourne shall no longer be the designated operator pursuant to this order or the date on which the Division approves the plugging of the well ("the Nearburg effective date.") The operations of Nearburg on this spacing and proration unit shall be conducted in accordance with the terms and provisions of this order and for this purpose the Nearburg effective date shall be the effective date of the order.

(2) An unorthodox location for the Mewbourne Oil Company Scoggin Draw "4" State Com Well No. 1 1650 feet from the North line and 990 feet from the West line is hereby approved provided that the production from this well shall be limited to no more than 3000 MCF/D.

(3) After the effective date of this order and within 30-days prior to commencing said well, Mewbourne shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) 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 Mewbourne 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 operation costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual 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 objection to actual well costs within said

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45-days period, the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60-days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated well 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.

(7) 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.

(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 is furnished to him.

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

(9) \$6000.00 per month while drilling and \$600.00 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 such 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 operation of such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) 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 the terms of this order.

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(11) 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.

(12) All proceeds from production from the subject well which are not disbursed for any reason shall immediately 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.

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

(14) The operator of the 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.

(15) Jurisdiction is hereby 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

(SEAL)