

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

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JASON KELLAHIN (RETIRED 1991)

November 12, 1996

HAND DELIVERED

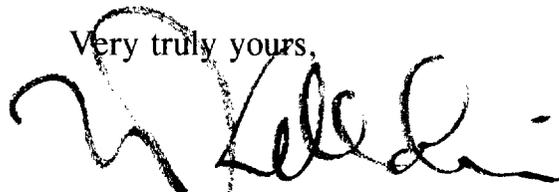
Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

**Re: Huston Com 1-K Well
N/2SW/4 Section 21, T19S, R19E, NMPM
Application of CT-R, LTD. Company and
Chantrey Corporation to amend
Administrative Order NSP-7, Eumont Gas Pool,
Lea County, New Mexico**

Dear Mr. LeMay:

On behalf of CT-R, LTD. Company and Chantrey Corporation, please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for December 5, 1996. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Denise Wann (CT-R, LTD. Company)
cc: William F. Carr, Esq.
Attorney for Mewbourne Oil Company

PROPOSED ADVERTISEMENT FOR NMOCD DOCKET

1/6/70

CASE____: Application of CT-R, LTD. Company and Chantrey Corporation to amend Administrative Order NSP-7, Lea County, New Mexico. Applicant seeks an order amending Order NSP-7, dated October 1, 1954, by reducing the previously approved 320-acre non-standard gas proration and spacing unit consisting of the S/2 of Section 21, T19S, R37E, NMPM, to an 80-acre non-standard gas proration and spacing unit to consist of the N/2SW/4 of said section 21 to be dedicated to the Huston Com #1-K Well located 1980 feet from the south and west lines of said Section 21, Eumont Gas Pool. Said unit is located approximately 1-1/2 miles north of Monument, New Mexico

**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. *11670*

**APPLICATION OF CT-R, LTD. COMPANY AND
CHANTREY CORPORATION TO AMEND
ADMINISTRATIVE ORDER NSP-7,
EUMONT GAS POOL,
LEA COUNTY, NEW MEXICO.**

A P P L I C A T I O N

Comes now CT-R, Ltd. Company and Chantrey Corporation, by and through their attorneys, Kellahin & Kellahin, and apply to the New Mexico Oil Conservation Division to amend Administrative Order NSP-7, dated October 1, 1954, by reducing the previously approved 320-acre non-standard gas proration unit consisting of the S/2 of Section 21, T19S, R37E, NMPM to an 80-acre non-standard gas proration and spacing unit to consist of the N/2SW/4 of said Section 21, to be dedicated to the Huston Com #1-K Well located 1980 feet from the south and west lines of said Section 21, Eumont Gas Pool, Lea County, New Mexico,

AND IN SUPPORT STATE:

- (1) On February 17, 1953, the OCD created the Eumont Gas Pool.
- (2) On September 28, 1953, the OCD issued Order R-370 which made the gas prorationing rules adopted in Order R-356 applicable to the Eumont Gas Pool on a temporary basis.
- (3) On October 28, 1953, the OCD adopted Order R-370-A which promulgated Special Rules and Regulations for the Eumont Gas Pool and gas prorationing in this pool became effective January 1, 1954.

(4) On August 12, 1954, the OCD adopted Order R-520 amending the Eumont Gas Pool Rules.

(5) On May 20, 1960, the OCD adopted Order R-1670 which superseded Order R-520.

(6) On March 28, 1986, the OCD rescinded Order R-1670 and adopted Order R-8170 which prescribed the General Rules for Prorated Gas Pools and provided the current Special Rules and Regulations for the Eumont Gas Pool which include:

(a) A standard gas proration unit ("GPU") shall be 640-acres. Rule 2(a)1.

(b) A standard GPU is assigned an Acreage Factor of "4" for purposes of gas prorationing. Rule 5(a).

(c) A non-standard GPU may be established. Rule 2(b) 4.

(7) OCD Rule 11.A provides that "Special rules, regulations and orders have been and will be issued when required and shall prevail as against General Rules, Regulations and Orders if in conflict therewith."

(8) However, neither the OCD general rules nor the special rules authorize the simultaneous dedication of multiple gas wells in the same GPU in the Eumont Gas Pool.

(9) Neither the OCD Proration Rules nor the statewide gas rules provide for the simultaneous dedication of the same acreage to multiple gas wells in that GPU.

(10) The Eumont Gas Pool Rules do not authorize infill drilling nor provide for additional gas wells in a GPU.

(11) The practice of allowing additional wells in the Eumont Gas Pool has not been authorized by any OCD general or special rule.

(12) On September 3, 1995, Schermerhorn Oil Corp. drilled and completed the Huston Com #1-K Well in Unit K of Section 21 as a producing gas well in the Eumont Gas Pool.

(13) On October 1, 1954, the OCD issued Administrative Order NSP-7 which approved a 320-acre non-standard gas proration and spacing unit for this well (GPU") consisting of the S/2 of Section 21.

(14) On February 1, 1955, the leases in this GPU were consolidated by Communitization Agreement (14-08-001-2088) which was approved on June 10, 1955.

(15) On July 10, 1955, the GPU was certified as effective.

(16) The GPU is subject to a Joint Operating Agreement dated February 1, 1955, between Schermerhorn Oil Corp as operator and Kenwood Oil Company and J. Hiram Moore as non-operators.

(17) In October, 1994, CT-R, Ltd. acquired the NW/4SW/4 of Section 21 and a working interest in the S/2 of Section 21 including this GPU from John Hendrix Corporation.

(18) In December, 1994, Mewbourne Oil Corporation acquired an interest in this GPU from V. H. Westbrook.

(19) Chevron USA Inc. is the only other working interest owners in this GPU.

(20) The 1955 Operating Agreement provides that Mewbourne as operator shall be responsible for all cost of reworking, plugging, testing, equipping, etc. on the Huston Com #1-K Well and in exchange the operator retains 1/4th of 8/8th of the non-operator's proceeds of the sale of gas.

(21) From the time it first acquired its interest in this GPU, Mewbourne has been intent on drilling another well rather than rework the Huston Com. 1-K Well pursuant to the 1955 Operating Agreement.

(22) On September 21, 1995, CT-R, Ltd. made demand on Mewbourne as operator to commence a rework of the Huston Com #1-K Well.

(23) Mewbourne refused CT-R, Ltd's demands because Mewbourne did not like the terms and conditions of Operating Agreement under which it was obligated to perform its duties.

(24) On March 12, 1996, Mewbourne commenced efforts to "renegotiate" what it consider to be a "bad deal" under the existing Operating Agreement, refused to perform its responsibilities and rework the Huston Com #1-K Well unless the agreement was modified.

(25) On August 21, 1996, only after Chevron agreed to modify the agreement as to its interest, did Mewbourne attempt a workover on the well **but** failed to properly try to fish the parted tubing and abandoned any attempt to rework this well.

(26) Numerous companies including Amerada Hess Corporation, Texaco, Conoco and Chevron, have been successful at reworking old Eumont Gas Pool wells and have substantially improved production for a fraction of the cost of a new well.

(27) At the time Mewbourne commenced the workover of the Huston Com 1-K Well, it was producing at the rate of 26 MCFGPD.

(28) After Mewbourne's failed rework effort, Mewbourne returned the well to production at of 5 MCFGPD

(29) Mewbourne having acquired what it considers to be a "bad deal" has attempted to circumvent its contractual obligations and has violated its duties to CT-R, Ltd by failing to properly and adequately rework the Huston Com #1-K Well.

(30) Instead of spending an estimated \$20,000 to rig up and properly attempt to fish the parted tubing in the Huston Com #1-K Well, Mewbourne now wants to drill a new well for a total cost of \$274,300.

(31) On October 15, 1996, Mewbourne Oil Company ("Mewbourne") filed an application with the Division seeking a compulsory pooling order for the drilling of a second Eumont Gas well on the existing 320-acre GPU.

(32) This GPU is not available for pooling because:

(a) it has already been consolidated on a 100% voluntary basis, previously approved by the OCD pursuant to Administrative Order NSP-7 and is dedicated to the Mewbourne operated Huston Com #1-K Well in Unit K of Section 21 which is currently producing gas from the Eumont Gas Pool; and

(b) the drilling of additional Eumont Gas Wells in this 320-non-standard gas proration and spacing unit is subject to a Communitization Agreement and Operating Agreement which preclude Mewbourne from drilling this proposed additional Eumont Gas well in this unit without the unanimous consent of the parties involved including CT-R, Ltd, Company and Chevron USA Inc.

(33) This existing GPU is not available for "simultaneous dedication" because:

(a) it is already dedicated to and approved by the OCD (Administrative Order NSP-7) as the GPU for the Mewbourne operated Huston Com #1-K Well in Unit K of Section 21 which is currently producing gas from the Eumont Gas Pool;

(b) Mewbourne has failed to request approval to simultaneously dedicate its proposed Eumont "21" State Well No. 1 to this previously approved GPU; and

(c) the simultaneous dedication of the same GPU to multiple gas wells in the Eumont Gas Pool can be accomplished **only** with the unanimous consent of the interest owners in that GPU.

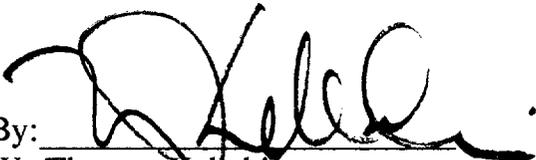
(34) CT-R, Ltd. Company and Chantrey Corporation do not desire to participate in Mewbourne's new well in this GPU.

(35) In the absence of OCD adopting a general or special rule applicable to the Eumont Gas Pool which authorizes simultaneous dedication or infill drilling, the optional additional well now proposed by Mewbourne in this GPU must be with the unanimous consent of the interest owners or in the alternative the GPU must be amended to exclude CT-R, Ltd. Company's interest and the 40-acre tract upon which the existing wellbore is located.

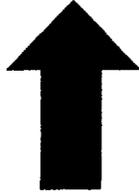
(36) Therefore CT-R, Ltd. seeks to have the existing 320-acre GPU contracted to consist of the N/2SW/4 of said Section 21 and to thereby be excluded from participating in the new well proposed by Mewbourne to be located in the SW/4SW/4 of said Section 21.

WHEREFORE CT-R, Ltd. Company and Chantrey Corporation request that the Division to amended NSP-7 and to contract the existing 320-acre GPU so that it consists of an 80-acre non-standard gas proration and spacing unit being the N/2SW/4 of said Section 21 and to thereby excluded the balance of the S/2 of Section 21 which will then be available for participating in the new well proposed by Mewbourne to be located in the SW/4SW/4 of said Section 21.

KELLAHIN AND KELLAHIN

By: 

W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285



LTR



Job separation sheet

OIL CONSERVATION COMMISSION

P. O. BOX 871

SANTA FE, NEW MEXICO

October 1, 1954

Schermerhorn Oil Corporation
Box 1537
HOBBS, N M

Attention: Mr. J. H. Moore, Geologist

Gentlemen:

RE: Administrative Order NSP-7

Reference is made to your application received September 1, 1954, for approval of a 320-acre non-standard gas proration unit covering the S/2 of Section 21, Township 19 South, Range 37 East, NMPM, Lea County, New Mexico, said unit to be ascribed to your proposed Huston Unit Well No. 1, NE/4 SW/4 of said Section 21.

By authority granted me under provisions of Rule 5, Section (b)-6 of the Special Rules and Regulations for the Eumont Gas Pool as set forth in Order R-520, you are hereby authorized to operate the above-described acreage as a non-standard gas proration unit, with allowable to be assigned thereto in accordance with pool rules.

Under terms of Rule 3 of the Eumont Pool rules, you are further authorized to drill your proposed well at a point 1830 feet from the west line and 1650 feet from the south line of Section 21, Township 19 South, Range 37 East, this deviation from normal spacing requirements necessitated by topographical difficulties.

Very truly yours,

W. B. Macey, Secretary-Director

WEM:nr

cc: Oil Conservation Commission
Hobbs

N. M. Oil & Gas Eng. Committee
Hobbs

ORIGINAL

SCHERMERHORN OIL CORPORATION

MAIN OFFICE XXXXXX XXXX
HOBBES OFFICE OOO

10-2-54
2 month
See Cont 1

1954 AUG 1

P. O. Box 1537
Hobbs, New Mexico
August 27, 1954

1954 AUG 27 PM 3:54

New Mexico Oil Conservation Commission
P. O. Box 2045
Hobbs, New Mexico

Gentlemen:

Attached are copies of Form C-101 for notice of intention to drill Schermerhorn Oil Corporation Huston Unit No. 1, a proposed Queen gas well in the Eumont Pool, Lea County, New Mexico.

In order to comply with spacing so that a proposed gas unit might be formed, comprising the S $\frac{1}{2}$ of Section 21-19S-37E, the original intention of the operator was to stake this location at a point located 1980 feet from the West Line and 1650 feet from the South Line of Section 21. This location was at a point directly over a ten inch gas gathering line which traverses this tract. As it would not be possible to drill the location at this point it was moved to a point 1830 feet from the West Line and 1650 feet from the South Line of this section.

Because of the obstacle which prevented a regular 1980 foot location we requested Mr. Stanley, Engineer with the New Mexico Oil Conservation Commission to inspect the originally proposed location on the ground to confirm that it was not feasible to locate the well at the regular 1980 foot point.

We ask that you please give this matter your consideration and allow the revised location to be a regular 1980 foot location, which might be required in order to form a 320 acre gas unit.

Yours very truly,

SCHERMERHORN OIL CORPORATION



J. H. Moore, Geologist

1954 SEP 1 PM 2:50

JHM:mw
Enclosures

MAIN OFFICE OOO

NEW MEXICO
OIL CONSERVATION COMMISSION

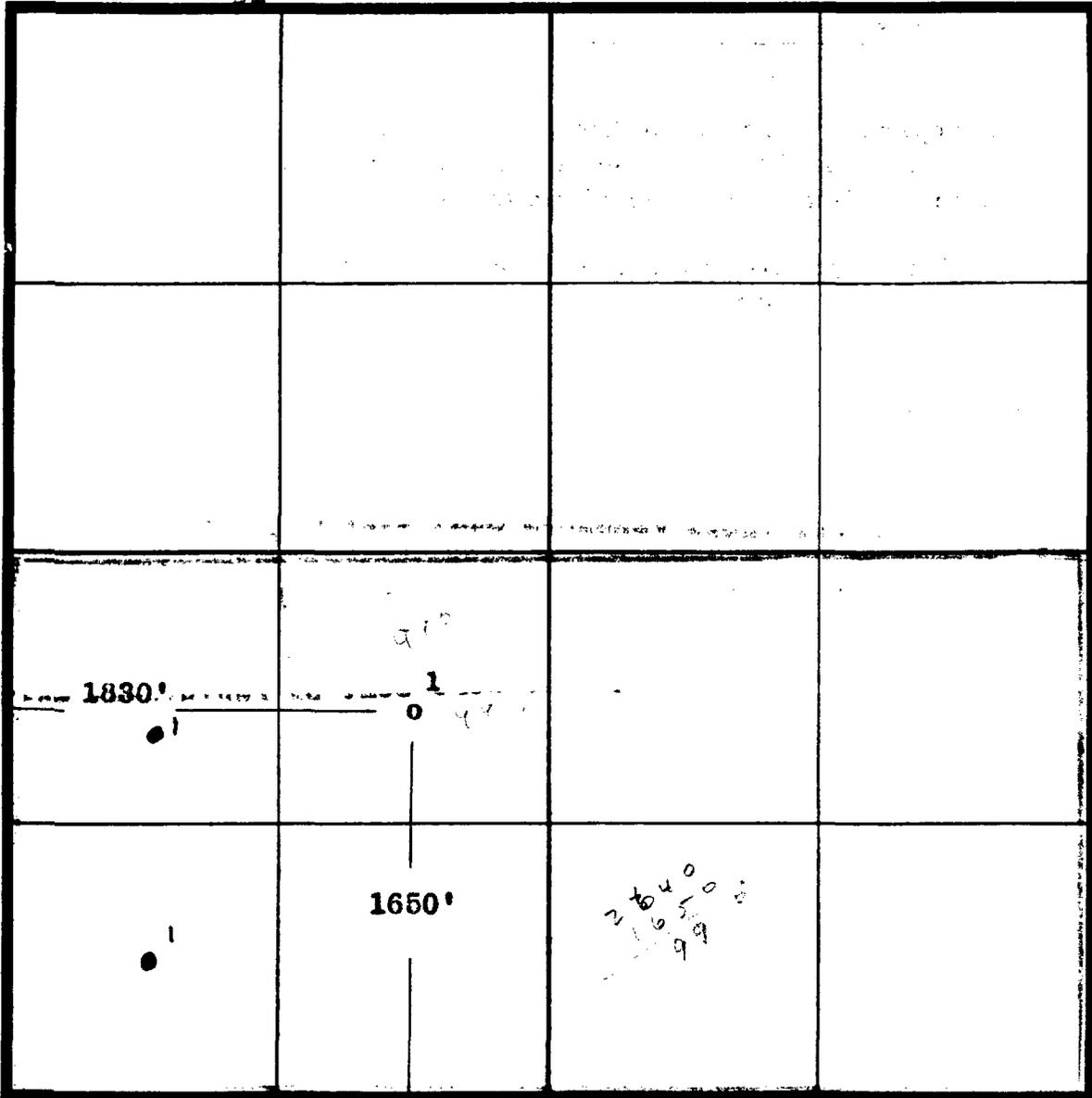
Gas Well Plat

Date August 27, 1954

SCHERMERHORN OIL CORPORATION, Huston Unit 1
Operator Lease Well No.
Name of Producing Formation Queen Pool Eumont
1954 AUG 30 AM 10:00

No. Acres Dedicated to the Well 320

SECTION 21 TOWNSHIP 19 South RANGE 37 East



I hereby certify that the information given above is true and complete to the best of my knowledge.

Name J. H. Moore
Position Geologist
Representing Schermerhorn Oil Corporation
Address Box 1537 Hobbs, New Mexico

(over)

INSTRUCTIONS

1. Is this gas well a dual completion? ~~Yes~~ _____ No. x .
2. If the answer to Question 1 is Yes, are there any other dually completed wells within the dedicated acreage?
Yes _____ No. _____ .

A separate plat must be filed for each gas well, outlining the area dedicated to such well and showing the location of all other wells (oil and gas) within the outlined area.

Mail in duplicate to the district office for the district in which the well is located.

Written consent in the form of waivers has been requested from all operators owning leases in the North Half of Section 21. These requests were sent by registered mail August 28, 1954.

SCHERMERHORN OIL CORPORATION

XXXXXXXXXX
XXXXXXXXXXXX

P. O. Box 1537
Hobbs, New Mexico
August 28, 1954

RECEIVED

AUG 30 AM

Humble Oil & Refining Company
P. O. Box 1287
Roswell, New Mexico

Attention: Mr. Lloyd O. Waldron

Re: Request for Waiver in Formation
of 320 Acre Gas Proration Unit,
S $\frac{1}{2}$ Section 21, T. 19 S, R. 37 E,
Lea County, New Mexico

Gentlemen:

In order to comply with New Mexico Oil Conservation Commission Order No. R-520 in the matter of forming a non-standard 320 acre gas proration unit in the Eumont Pool, this is to request a waiver from your Company.

Schermerhorn Oil Corporation plans to drill a Queen gas test to be located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 21-19S-37E, Lea County, New Mexico. It is the intention of the operator to form a 320 acre gas proration unit comprising the S $\frac{1}{2}$ of Section 21.

As your Company owns a lease interest in the N $\frac{1}{2}$ of Section 21, will you please send us written consent in the form of a waiver in case you have no objections to this unit. If there is no reply from you within thirty days we will assume that you have no objections to this unit.

Yours very truly,

SCHERMERHORN OIL CORPORATION

By: J. H. Moore, Geologist

JHM:mv

REGISTERED MAIL-RRR

cc: New Mexico Oil Conservation Commission
P. O. Box 2045
Hobbs, New Mexico

SCHERMERHORN OIL CORPORATION

~~XXXXXXXXXX~~
~~XXXXXXXXXXXX~~

**P. O. Box 1537
Hobbs, New Mexico
August 28, 1954**

NOV 28 1954 800

AUG 28 AM 10:00

**Gulf Oil Corporation
P. O. Box 787
Roswell, New Mexico**

Attention: Mr. E. S. Grear

**Re: Request for Waiver in Formation
of 320 Acre Gas Proration Unit,
S $\frac{1}{2}$ Section 21, T. 19 S, R. 37 E,
Lea County, New Mexico**

Gentlemen:

In order to comply with New Mexico Oil Conservation Commission Order No. R-520 in the matter of forming a non-standard 320 acre gas proration unit in the Eumont Pool, this is to request a waiver from your Company.

Schermerhorn Oil Corporation plans to drill a Queen gas test to be located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 21-19S-37E, Lea County, New Mexico. It is the intention of the operator to form a 320 acre gas proration unit comprising the S $\frac{1}{2}$ of Section 21.

As your Company owns a lease interest in the N $\frac{1}{2}$ of Section 21, will you please send us written consent in the form of a waiver in case you have no objections to this unit. If there is no reply from you within thirty days we will assume that you have no objections to this unit.

Yours very truly,

SCHERMERHORN OIL CORPORATION

By: J. H. Moore, Geologist

JH¹:mm
REGISTERED MAIL-RRR

**cc: New Mexico Oil Conservation Commission
P. O. Box 2045
Hobbs, New Mexico**

SCHERMERHORN OIL CORPORATION

~~XXXXXXXXXX~~
~~XXXXXXXXXX~~

HOBBES OFFICE 000
P. O. Box 1537
Hobbs, New Mexico
August 28, 1954
10:00 AM

Amerada Petroleum Corporation
P. O. Box 591
Midland, Texas

Attention: Mr. John Cornwall

Re: Request for Waiver in Formation
of 320 Acre Gas Proration Unit,
S $\frac{1}{2}$ Section 21, T. 19 S, R. 37 E,
Lea County, New Mexico.

Gentlemen:

In order to comply with New Mexico Oil Conservation Commission Order No. R-520 in the matter of forming a non-standard 320 acre gas proration unit in the Eumont Pool, this is to request a waiver from your Company.

Schermerhorn Oil Corporation plans to drill a Queen gas test to be located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 21-19S-37E, Lea County, New Mexico. It is the intention of the operator to form a 320 acre gas proration unit comprising the S $\frac{1}{2}$ of Section 21.

As your Company owns a lease interest in the N $\frac{1}{2}$ of Section 21, will you please send us written consent in the form of a waiver in case you have no objections to this unit. If there is no reply from you within thirty days we will assume that you have no objections to this unit.

Yours very truly,

SCHERMERHORN OIL CORPORATION

By: J. H. Moore, Geologist

JHM:ew
REGISTERED MAIL-RRR

cc: New Mexico Oil Conservation Commission
P. O. Box 2045
Hobbs, New Mexico