
well proposed to be drilled at an unorthodox gas well location 2080 feet from the South line and 750 feet from the West line (Unit T) of Section 1.

(12) On September 12, 1997, the Division entered Order R-10872, which approved the Fasken application, denied the Mewbourne location and approved the formation of the above-described 297.88 acre non-standard gas spacing and proration unit because a full sized, as nearly as possible, standard shaped 640-acre spacing and proration unit cannot be formed within this irregularly shaped section since the needed acreage will not be offered by the U.S. Bureau of Land Management for mineral leasing."

(13) In addition, Order R-10872 included the following finding:

"(10) Section 1 of Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico comprises a total area of 853.62 acres consisting of a row of six lots and/or quarter-quarter sections being a legal governmental subdivision therein....A spacing and proration unit for either of the requested well locations that would be considered "standard" pursuant to the rules and regulations governing the Catclaw Draw-Morrow Gas Pool would need to incorporate the Lots 11, 12, 13, 14, 25, 26, 27, 28, 29, 30, 31 and 32 and the SW/4 of said Section 1. Even though this area comprises a total of 600.01 acres said area would satisfy the Division's requirements for the formation as near as possible of a standard sized and shaped drilling tract. Also, the oil and gas mineral rights underlying this 600.01 acre drilling tract is under the jurisdiction of the United States government. HOWEVER, the 302.13 acre area that comprises Lots 11, 12, 13, 14, 15, 16, 17 and 28 of said Section 1 is currently an unleased federal tract that is under additional wildlife restrictions that makes the leasing of this particular area from the U.S. Bureau of Land Management impossible at this time."

(14) Immediately to the south of Section 1, Texaco operates a standard 632.36-acre gas spacing and proration unit within the Catclaw Draw-Morrow Gas Pool, which comprises all of Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, and is currently dedicated to its:

(a) E. J. Levers Federal "NCT-1" Well No. 1 (API No. 30-015-20683) located at a previously approved unorthodox gas well location [approved by Ordering Paragraph No. (6) of Division Order No. R-

4157-D, dated June 21, 1971] 660 feet from the South line and 1980 feet from the West line (Lot 14/Unit N) of Section 12; and,

- (b) E. J. Levers Federal "NCT-1" Well No. 2 (**API No. 30-015-28644**) located at a standard gas well location 2448 feet from the North line and 1980 feet from the West line (Lot 6/Unit F) of Section 12.

(15) In December, 1997, the New Mexico Oil Conservation Commission entered Order R-10872-B which: (i) clarified that two wells were allowed in a standard 640-acre unit in this pool; (ii) authorized Mewbourne to drill the Catclaw Draw "1" Federal Well No. 1 at its proposed unorthodox gas well location; (iii) set a 40% allowable [60% penalty factor] on Catclaw Draw-Morrow Gas Pool production for this well's productive capability into a pipeline as measured semi-annually; (iv) provided a minimum of one million cubic feet of gas per day as the lower or economic limit to be imposed on this well; (v) denied the Fasken location if the Mewbourne well was actually drilled; and (vi) confirmed the Division's approval of this 297.88 acre non-standard gas spacing and proration unit (bottom one-third equivalent) in Section 1 for the Catclaw Draw-Morrow Gas Pool.

(16) In accordance with Order R-10872-B, Mewbourne drilled and completed the Catclaw Draw "1" Federal Well No. 1 and is the current Division-designated operator for this 297.88-acre non-standard gas spacing and proration unit in the Catclaw Draw-Morrow Gas Pool. Further, this unit is currently subject to a Joint Operating Agreement, AAPL-1956 Model Form, dated April 1, 1970 which includes Fasken, Matador, and Devon Energy Corporation ("Devon") as non-operators.

(17) Catclaw Draw-Morrow gas production from the Catclaw Draw "1" Federal Well No. 1 is marginal that has been subject to the lower limit provision of Order No. R-10872-B.

(18) In July, 1998, the U. S. Bureau of Land Management changed its practice concerning the leasing of the 302.13-acre area comprising Lots 11 through 14 and 25 through 28 (middle one-third equivalent) of Section 1 and approved this tract for sale by listing it in the competitive oil and gas lease sale.

(19) Fasken was the successful bidder for this lease with the working interest therein now shared among Fasken, Devon, and Matador.

(20) By letter dated July 30, 1998, Texaco proposed its Rocky Arroyo Federal Com Well No. 1 as a Morrow gas test to be dedicated to a non-standard 555.74-acre gas spacing and proration unit consisting of Lots 11 through 14 and 17 through 28 (upper two-thirds equivalent) of Section 1.