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

JASON KELLAHIN (RETIRED 1991)

November 1, 1996

HAND DELIVERED

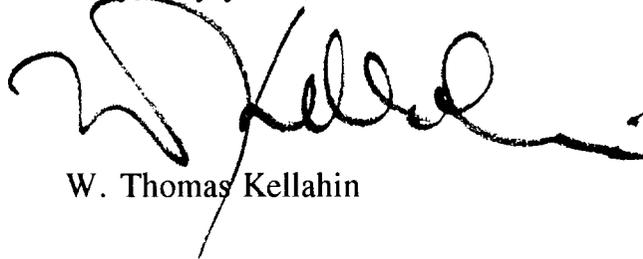
Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87504

**Re: MOTION TO DISMISS
PRE-HEARING STATEMENT
NMOCD Case 11648
S/2 Section 21, T19S, R37E, NMPM
Application of Mewbourne Oil
Company for Compulsory Pooling,
Lea County, New Mexico**

Dear Mr. Stogner:

On behalf of CT-R, Ltd. Company and Chantrey Corporation, please find enclosed a Motion to Dismiss and Pre-Hearing Statement for the referenced case currently set to be heard on November 7, 1996

Very truly yours,



W. Thomas Kellahin

Hand delivered:

William F. Carr, Esq.

Attorney for Mewbourne Oil Company

cc: CT-R, Ltd. Company
Attn: Denise Wann

**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. 11648

**APPLICATION OF MEWBOURNE OIL COMPANY
FOR COMPULSORY POOLING, A NON-STANDARD
PRORATION UNIT AND AN UNORTHODOX WELL
LOCATION, EUMONT GAS POOL,
LEA COUNTY, NEW MEXICO.**

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by CT-R, LTD. COMPANY and CHANTREY CORPORATION, as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Mewbourne Oil Company

ATTORNEY

William F. Carr, Esq.
P. O. Box 2208
Santa Fe, New Mexico 87504
(505) 988-4421

OPPOSITION PARTIES

CT-R, Ltd. Company
Chantrey Corporation
4830 Ragsdale
Hobbs, NM 88242
Attn: Denise Wann
(505) 392-7735

ATTORNEY

W. Thomas Kellahin
KELLAHIN AND KELLAHIN
P.O. Box 2265
Santa Fe, NM 87504
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STATEMENT OF CASE
OPPOSITION PARTY

CT-R, Ltd. Company and Chantrey Corporation (collectively "CT-R, Ltd."), move the New Mexico Oil Conservation Division ("OCD") to **dismiss** this case because:

(A) **Compulsory Pooling:** the S/2 of Section 21, T19S, R37E, Lea County, New Mexico, for which Mewbourne Oil Company ("Mewbourne") seeks to have the OCD issue a compulsory pooling order is not available for pooling because:

(1) 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

(2) 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.

(B) **Simultaneous Dedication:** the S/2 of Section 21, T19S, R37E, Lea County, New Mexico, for which Mewbourne seeks to have the OCD issue a "non-standard spacing unit" is not available because:

(1) the Mewbourne's proposed 320-acre GPU 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;

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

(3) 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.

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 acquired an interest in this GPU from V. H. Westbrook.

(19) 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.

(20) 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.

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

(22) 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.

(23) 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. **See Exhibit 2.**

(24) 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.

(25) 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.

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

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

(28) 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.

(29) 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.

(30) 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.

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.

WHEREFORE CT-R, Ltd. Company and Chantrey Corporation request that the Division Hearing Examiner grant this Motion and dismiss Oil Conservation Division Case 11648.

PROPOSED EVIDENCE

OPPOSITION PARTY:

WITNESSES	EST. TIME
Denise Wann (petroleum engineer)	60 minutes

EXHIBITS:

1. location map
2. NMOCD Order NSP-7 (October 1, 1954)
3. Communitization Agreement dated 2/1/1955
4. Unit Certificate of Effectiveness 7/20/1965
5. Joint Operating Agreement covering S/2 Sec. 21
6. Chevron-Mewbourne Agreement
7. production data-reserve estimates for Huston Com #1-K Well
8. proposed workover procedure for Huston Com #1-K Well
9. PE and geologic data/exhibits concerning the Mewbourne proposed new well.

PROCEDURAL MATTERS

- (1) Motion to Dismiss
- (2) possible Motion to Compel Mewbourne to file a pre-hearing statement in accordance with Division Memorandum 2-90 and to continue this case pending compliance therewith.
- (3) possible Motion to Compel compliance with Subpoena.

KELLAHIN AND KELLAHIN

By: 

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

VERIFICATION

State of New Mexico)
) ss.
County of Lea)

Comes now Denise Wann, being first duly sworn, upon her oath deposes and states: That she is a petroleum engineer, the President of Chantrey Corporation and the Manager for CT-R, Ltd. Company; that she has read the foregoing pleading and knows the contents thereof: that the same is true and correct of her own knowledged, information and belief.

Denise Wann
Denise Wann

SUBSCRIBED AND SWORN to before me by Denise Wann, who personally appeared before me this 31st day of October, 1996.



OFFICIAL SEAL
LARRY D. MITCHELL
NOTARY PUBLIC - STATE OF NEW MEXICO
Notary Bond Filed With Secretary of State
My Commission Expires 5-4-00

Larry D. Mitchell
Notary Public

My Commission Expires: 5-4-00

SEAL:

CERTIFICATE OF SERVICE

I certify that a copy of this pleading was transmitted by ~~facsimile~~ ^{Handdelivered} to counsel for applicant this 1st day of November, 1996.

W. Thomas Kellahin
W. Thomas Kellahin

CT-R, Ltd. Co.

4830 RAGSDALE
HOBBS, NEW MEXICO 88240
505-392-7735

September 21, 1995

Mewbourne Oil Company
500 West Texas
Midland, Texas 79701
Attn: Steve Cobb

Re: H.L. Houston - S/2 Section 21, T19S, R37E

Dear Mr. Cobb,

I appreciated the opportunity to meet with you and the other Mewbourne personnel to discuss the Houston Com #1. CT-R is very interested in the performance of the well. We believe that the obstruction in the tubing found at around 2200 feet should be investigated further. If the obstruction is salt and/or iron sulfide fill as we suspect, the production could be improved significantly by removing the obstruction and cleaning out the fill. We understand the cost would be the sole responsibility of Mewbourne Oil Company, but Mewbourne knew of this responsibility when the lease was purchased from Westbrook. It is the implied responsibility of an operator to maintain a well to the best of its producing capability within economic limits.

The Houston Com #1 should be capable of 180 MCFPD or more based on structural position, pressure, cumulative and offset capabilities. On the basis of an increase from 30 MCFPD to 180 MCFPD, Mewbourne could obtain an additional 570 MCFPM to cover operating expenses plus gain 2334 MCFPM in production.

I am strongly committed to an attempt to improve production on the existing well before approaching any additional drilling on this acreage. Although Mewbourne seems set on wanting to drill and not rework the existing well, I believe that the economics favor a rework. Why not spend \$12,000 to pull tubing, cleanout the wellbore and do a bottomhole pressure survey. The information gained from this could help to further justify a drilling prospect or show that the existing wellbore has potential. A buildup analysis will show whether the well is stimulated or has damage. This information is vital in evaluating the potential of the lease.

EXHIBIT

2

I don't believe that a new Communitization Agreement to cover a \$300,000 drilling project on this acreage could be justified at this time. The information available at this time leads me to believe that a new drill would still have only a slight chance of more than 180 MCFPD. I don't think that rate would warrant a new drill at today's gas prices.

We plan to use all the leverage we can to persuade Mewbourne to attempt this workover project. Please review the possibilities as we believe it warrants a close look.

Sincerely,

Denise Wann
President Chantrey Corporation
Manager for CT-R, Ltd. Co.
mew92195

MEWBOURNE OIL COMPANY

500 W. TEXAS, SUITE 1020
MIDLAND, TEXAS 79701

(915) 682-3715
FAX (915) 685-4170

March 12, 1996

CT-R, Ltd. Co.
Chantrey Corporation
4830 Ragsdale
Hobbs, New Mexico 88240

Attention: Ms. Denise Wann

Re: Eumont Prospect
MOC Huston Com. 1-K Well
S/2 of Section 21-19S-37E
Lea County, New Mexico

Dear Ms. Wann,

As discussed in our various conversations, the captioned well is providing very little current revenue, consequently all interest owners in the well are receiving little if any benefit. The well is rapidly approaching its economic limit and will have to be plugged and abandoned unless production can be increased.

After careful review, Mewbourne Oil Company (MOC) as Operator, desires to commence operations to evaluate the possibility of increasing the wells' production. However, there is a great deal of operational risk involved in working on an old well such as this, and the final costs associated therewith are difficult to predict. The records of previous Operators are non-existent, and our work to date indicates we can expect problems.

The current Agreements covering the captioned well are outdated. In order to proceed with the prudent development of this well and unit, we respectfully request that CT-R, Ltd. Co. and Chantrey Corporation (Chantrey) agree to amend the existing Agreements and/or enter into mutually acceptable new Agreements which will provide among other things, that the costs associated with developing said well and unit will be shared proportionally by each working interest owner as to his ownership in said unit.

EXHIBIT

2

If the above meets with your approval, please so signify in the space provided and return our executed copy of this letter to the undersigned at your earliest convenience.

Sincerely,

MEWBOURNE OIL COMPANY



Steve Cobb
District Landman

SC/gb

AGREED to and ACCEPTED this _____ day of _____, 1996.

By: _____
CT-R, Ltd. Co.
Chantrey Corporation