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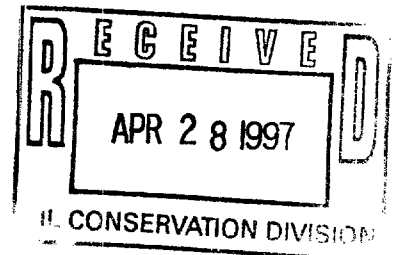
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April 28, 1997

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Re: Oil Conservation Division Case No. 11713:
Application of Bass Enterprises Production Company and Santa Fe Energy
Company for the Rescission of Division Administrative Order No. NSL-3745,
Eddy County, New Mexico

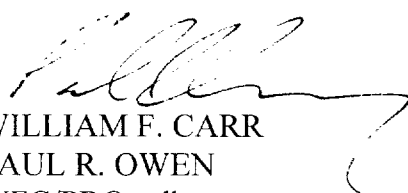
Oil Conservation Division Case No. 11758:
Application of Bass Enterprises Production Company to Drill and for
Simultaneous Dedication or, in the Alternative, Simultaneous Dedication and for
an Unorthodox Gas Well Location, Eddy County, New Mexico

Dear Mr. LeMay:

Enclosed for your consideration is Mewbourne Oil Company's proposed Order in the above-referenced cases pertaining to the February 20, and April 3, 1997 Examiner hearings.

If you need anything further from Mewbourne to proceed with your consideration of these matters, please advise.

Very truly yours,

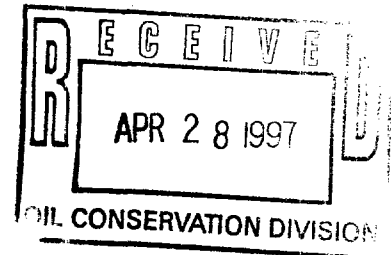

WILLIAM F. CARR
PAUL R. OWEN
WFC/PRO:mlh

Enclosure

cc: David R. Catanach, Hearing Examiner (w/enclosure)
Michael E. Stogner, Hearing Examiner (w/enclosure)
Mr. Steve Cobb, Mewbourne Oil Company, (w/enclosure)
Ernest L. Carroll, Esq. and James E. Haas, Esq. (w/enclosure)

**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:**



**APPLICATION OF BASS ENTERPRISES
PRODUCTION COMPANY AND
SANTA FE ENERGY COMPANY
FOR THE RESCISSION OF DIVISION
ADMINISTRATIVE ORDER NO. NSL-3745,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 11713

ORDER NO. R-_____

**APPLICATION OF BASS ENTERPRISES
PRODUCTION COMPANY TO DRILL AND
FOR SIMULTANEOUS DEDICATION OR, IN THE
ALTERNATIVE, SIMULTANEOUS DEDICATION
AND FOR AN UNORTHODOX GAS WELL LOCATION,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 11758

ORDER NO. R-_____

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

BY THE DIVISION:

This cause came on for hearing at 8:15 o'clock a. m. on February 20, and April 3, 1997, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner.

NOW, on this _____ day of April, 1997, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners, 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 these causes and the subject matters thereof.

(2) The applicants in Case 11713, Bass Enterprises Production Co. ("Bass") and Santa Fe Energy Company ("Santa Fe") seeks the rescission of Division Administrative Order No. NSL-3745 which was entered on December 27, 1996 approving an unorthodox gas well location in the Morrow formation for the Mewbourne Oil Company ("Mewbourne") Scanlon Draw "35" State Well No. 1("Scanlon Well") to be drilled 660 feet from the South line and 1980 feet from the West line of Section 35, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico to test the Turkey Track-Morrow Gas Pool within a standard 320-acre gas spacing unit comprising the W/2 of said Section 35.

(3) In Case 11758, Bass seeks to drill its Turkey Track "2" State Well No. 2 at an orthodox location to be simultaneously dedicated with the Turkey Track "2" State Well No. 1 to a standard 320-acre proration unit comprised of the E/2 of Section 2, Township 19 South, Range 28 East, NMPM, Eddy County, New Mexico. In the alternative, if Administrative Order No. NSL-3745 approving an unorthodox well location for the Scanlon Well is upheld in Case 11713, Bass seeks the corresponding unorthodox location (660 feet from the North line and 1980 feet from the East line) for its Turkey Track "2" Well No. 2 in Unit B of the E/2 of Section 2, Township 19 South, Range 28 East, and the simultaneous dedication of said well to the proration unit comprising the E/2 of said Section 2.

(4) Since the disposition of Case 11713 will affect the decision in Case 11758, at the time of hearing the cases were consolidated.

(5) On December 5, 1996 Mewbourne filed an Administrative Application pursuant to the provisions of Division Rule 104 F (2) for approval of an unorthodox location for its Scanlon Well, 660 feet from the South line and 1980 feet from the West line of Section 35, Township 18 South, Range 28 East. Although this location would have been standard for a S/2 spacing unit, Mewbourne proposed a W/2 unit which caused the location to be unorthodox to the South line of the dedicated acreage. Mewbourne provided notice of this application to Bass and Santa Fe in compliance with Division Rules.

(6) Bass and Santa Fe failed to object to this application within 20 days as required

by Rule 104 and on December 27, 1996, the Division entered Order No. NSL-3745 approving Mewbourne's application.

(7) Bass and Santa Fe objected to the Mewbourne location by letter dated December 20, 1996 which was received by the Division on December 27, 1997. Since this objection was not timely received by the Division, and the unorthodox location had already been approved, on December 31, 1996, Bass filed its application in Case 11713 seeking rescission of Order No. NSL-3745.

(8) Mewbourne opposed the application and asserted that rescission was only appropriate if it was shown that there were improprieties in the procedures by which Order No. NSL-3745 was obtained. However, by letter dated February 17, 1997, the Division accepted this late filing and thereby sets a new precedent whereby failure to timely object to an application for approval of an unorthodox location does not preclude a subsequent challenge thereto if there is a reason which justifies the untimely filing. The Division determined that delays in mail delivery during the holiday season is an acceptable justification for failure to comply with the time requirements of its Rules. Order NSL-3745 was then stayed pending review of this matter by a Division Examiner.

(9) Although Bass admitted that it had not timely filed its objection, the Division, permitted Bass and Santa Fe to present their case in opposition to the proposed unorthodox location.

(10) On February 20, 1997 Bass presented geological evidence which showed:

- (A) The Morrow channel in Sections 35 and 2 does not trend Northwest-Southeast as mapped by Mewbourne for its administrative application but, instead, in a North-South direction providing Mewbourne a standard location in the West half of Section 35;
- (B) The well being drilled by Mewbourne in Section 34, Township 18 South, Range 28 East, would be outside the channel and therefore non-productive from the Morrow;
- (C) A fault traversing Section 2, Township 19 South, Range 28 East, which made a second well in Section 2 necessary to protect this tract

from drainage if the Mewbourne well was drilled at the proposed unorthodox well location in Section 35.

(11) Bass testified that due to the characteristics of the Morrow formation in this area, penalties on wells due to unorthodox well locations are ineffective and, therefore, Bass did not recommend the imposition of a penalty on the proposed Mewbourne well but, instead, advised the Examiner that, if the Mewbourne location was approved, it would seek approval of an offsetting well and simultaneous dedication of the wells in the E/2 of Section 2.

(12) At the conclusion of the February 20, 1997 hearing, the case was continued to enable the parties time to attempt to settle this dispute and, if settlement could not be reached, to continue the cases to a subsequent Examiner hearing for the presentation of the Mewbourne case.

(13) On February 28, 1997, Bass filed its application to drill and for simultaneous dedication, or in the alternative, simultaneous dedication and unorthodox location which was set for hearing as Case 11758.

(14) Mewbourne has drilled and completed its well in Section 34 in the Morrow formation as a west offset to its proposed well location in Section 35.

(15) Since this well was being logged and tested during the first few days of April 1997, Mewbourne proposed the reopened hearing on these applications be continued to enable the parties to have the benefit of the data being acquired on this well. Bass opposed the continuance and the cases were reopened on April 3, 1997 for the presentation of Mewbourne's case.

(16) On April 3, 1997, Mewbourne presented evidence which showed:

(A) Although its well in Section 34 had encountered less sand than anticipated, it drill stem tested at 8 million cubic feet of gas per day. This well was not a mile west of this Morrow channel as Bass had mapped the reservoir. Instead, this new information confirmed the geological interpretation that Mewbourne had presented with its administrative application in December 1996;

- (B) Morrow reservoir values vary substantially over very short distances and therefore penalties on wells at unorthodox locations are ineffective;
- (C) A standard well location was unavailable to Mewbourne in Section 35 and the Mewbourne location in Section 35 is necessary if it is to effectively and efficiently drain the recoverable reserves under its tract;
- (D) The data on this reservoir offered by Bass to support its postulated fault only shows a boundary effect in the reservoir. The Bass data may only show a deterioration of reservoir permeability like that experienced in the well in unit F of Section 35 where substantial changes occurred in the reservoir between the well's straight hole location and the reservoir at the point it was intersected after this well was side tracked to a point less than 200 feet from the original location;
- (E) If there is a fault in the reservoir, current data is insufficient to place this fault between the Bass location in Section 2 and the Mewbourne proposed location in Section 35.

(17) The data recently obtained from the Mewbourne well in Section 34, Township 18 South, Range 28 East, confirms Mewbourne's geological interpretation of the Morrow formation in this area and refutes the geological interpretation of Bass.

(18) The proposed unorthodox location for the Mewbourne Scanlon Draw "35" State Well No. 1 at a point 660 feet from the South line and 1980 feet from the West line of Section 35, Township 18 South, Range 28 East, NMPM, is necessary to effectively and efficiently produce the reserves in the Morrow formation under the W/2 of said Section 35 and therefore the application of Bass and Santa Fe to rescind Division Administrative Order No. NSL-3745 should be **denied** and the stay of this order should be lifted.

(19) Bass failed to establish the existence of a fault in the Morrow formation between the proposed Mewbourne location in Section 35 and the Bass acreage in Section 2.

(20) Approval of a second well on the E/2 of Section 2 and the simultaneous dedication of the wells thereon would result in two wells producing from this Morrow reservoir on the Bass operated tract and only one well producing from the offsetting

CASE NOS. 11713 AND 11758

ORDER NO. R-_____

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Mewbourne tract in the W/2 of Section 35. This would result in Bass having an advantage over other mineral owners in this reservoir impairing the correlative rights of these owners and, therefore, the application of Bass to drill an additional well in the E/2 of Section 2 and for simultaneous dedication should be **denied**.

IT IS THEREFORE ORDERED THAT:

(1) The application of Bass Enterprises Production Company and Santa Fe Energy Company in case 11713 for the rescission of Division Administrative Order No. NSL-3745 is hereby **denied** and the stay of Administrative Order No. NSL-3745 is hereby lifted.

(2) The application of Bass Enterprises Production Co. in Case 11758 to drill and simultaneous dedication, or in the alternative, simultaneous dedication and an unorthodox location is hereby **denied**.

(3) Jurisdiction of these causes 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 hereinafter designated.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

WILLIAM J. LEMAY
Director

S E A L