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RECOGNIZED SPECIALIST IN THE AREA OF
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JASON KELLAHIN (RETIRED 1991)

November 4, 1997

Mr. William J. LeMay, Chairman
Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87502

HAND DELIVERED

Mrs. Jami Bailey
State Land Office
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

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Mr. Bill Weiss
New Mexico Petroleum Recovery
Research Center, Kelly Building
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FEDERAL EXPRESS

Re: PROPOSED ORDER OF THE COMMISSION

NMOCD Case No. 11755

*Application of Fasken for unorthodox gas well location,
Eddy County, New Mexico*

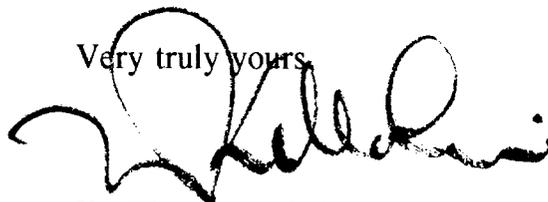
NMOCD Case 11723

*Application of Mewbourne for unorthodox gas well
location, Eddy County, New Mexico*

Dear Members of the Commission:

On behalf of Fasken, please find enclosed our proposed order for consideration by the Commission. I have provided a copy of this order on a WordPerfect Diskette and have delivered it to Mrs. Hebert.

Very truly yours,



W. Thomas Kellahin

cc: *Lyn Hebert, Esq.*
Attorney for the Commission
William F. Carr, Esq.
Attorney for Texaco
James Bruce, Esq.
Attorney for Mewbourne

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**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**APPLICATION OF FASKEN OIL AND RANCH, LTD.
FOR TWO ALTERNATIVE UNORTHODOX WELL
LOCATIONS AND A NON-STANDARD PRORATION UNIT,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 11755

**APPLICATION OF MEWBOURNE OIL COMPANY
CORPORATION FOR AN UNORTHODOX WELL
LOCATION AND A NON-STANDARD PRORATION
UNIT, EDDY COUNTY, NEW MEXICO.**

CASE NO. 11723

**APPLICATION OF TEXACO EXPLORATION AND
PRODUCTION, INC. FOR CLARIFICATION OR IN
THE ALTERNATIVE, AN EXCEPTION TO THE
SPECIAL POOL RULES AND REGULATIONS FOR
THE CATCLAW DRAWN-MORROW GAS POOL,
EDDY COUNTY, NEW MEXICO.**

CASE NO. 11868

ORDER R-10872-A

**FASKEN LAND AND MINERALS, LTD.
AND
FASKEN OIL AND RANCH, Ltd.
PROPOSED
ORDER OF THE COMMISSION**

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on October 30, 1997, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this ___ day of November, 1997, the Commission, a quorum being present, having considered the pleadings in Cases 11723, 11755 and 11868, including the applications, various motions and affidavits contained therein, the transcripts, exhibits and evidence presented to the Division on April 3 and 4, 1997, and the testimony presented and the exhibits received at the hearing held on October 30 and 31, 1997, and being fully advised in the premises,

FINDS THAT:

Cases, Appearances and Notice

(1) The following cases were consolidated for hearing before and decision by the Commission:

(a) Case 11723: Application of Mewbourne Oil Company ("Mewbourne") for an unorthodox well location 2310 feet from the East line and 660 feet from the south line ("the Mewbourne location") of Irregular Section 1, T21S, R25E including approval of a non-standard 297.88 acre unit ("NSP") comprising the southern portion of Irregular Section 1 described as Lots 29, 30, 31, 32 and the SW/4 (S/2 equivalent), Eddy County, New Mexico.

(b) Case 11755: Amended Application of Fasken Oil and Ranch, Ltd, and Fasken Land and Minerals, Ltd. (collectively "Fasken"). for an unorthodox well location 750 feet from the West line and 2080 feet from the south line ("the Mewbourne location") of Irregular Section 1, T21S, R25E including approval of a non-standard 297.88 acre unit ("NSP") comprising the southern portion of Irregular Section 1 described as Lots 29, 30, 31, 32 and the SW/4 (S/2 equivalent), Eddy County, New Mexico.

(c) Case 11868: Application of Texaco Exploration and Production, Inc. ("Texaco") for an order clarifying the rules to be applied to second wells on spacing units in the Catclaw-Draw Morrow gas Pool, or in the alternative for an exception from these rules for its E. J. Levers Federal "NCT-1" Wells No 1 and 2 (hereafter the Levers #1 and the Levers #2) located in Section 12, T21S, R25E, Eddy County, New Mexico.

(2) Fasken in Case 11755, Mewbourne in Case 11723 and Texaco in Case 11868 have provided adequate notice of this proceedings and the only parties appearing of record are as follows:

Fasken Oil and Ranch, Ltd.
Fasken Land and Minerals, Ltd.
Mewbourne Oil Company
Penwell Energy Inc.
Texaco Exploration and Production, Inc.

(3) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

Summary of relevant factual background

(4) Irregular Section 1 consists of 853.62 acres and is divided into thirds with the central portion of this section being "unleased" federal oil and gas minerals the surface of which is subject to a federal environmental study. As a result, both Fasken and Mewbourne requested approval of a non-standard 297.88 acre unit ("NSP") comprising the southern portion of Irregular Section 1, T21S, R25E, Eddy County, N.M. and described as Lots 29, 30, 31, 32 and the SW/4 (S/2 equivalent).

(5) Fasken is the operator of the S/2 equivalent of Irregular Section 1 as a result of a Joint Operating Agreement, AAPL-1956 Model Form, dated April 1, 1970 which includes Mewbourne Oil Company ("Mewbourne") Matador Petroleum Corporation, Devon Energy Corporation, and others, as non-operators.

(6) South of Section 1 is Section 12 which Texaco Exploration and Production Inc. ("Texaco") operates as a 632.36 acre gas spacing and proration unit within the Catclaw Draw-Morrow Gas Pool which is currently dedicated to the:

(a) E. J. Levers Federal "NCT-1" Well No. 1 (the Levers Well No. 1) located 660 feet from the South line and 1980 feet from the West line of Section 12; and

(b) E. J. Levers Federal "NCT-1" Well No. 2 (the Levers Well No. 2) located 2448 feet from the North line and 1980 feet from the West line of Section 12

(7) Both well locations are within the current boundary of the Catclaw Draw-Morrow Gas Pool which is subject to the Division's Special Rules and Regulations (Order R-4157-D) which include:

"Rule: 2...shall be located no closer than 1650 feet to the outer boundary of the section nor closer than 330 feet to any governmental quarter-quarter section line."

"Rule 2(B)...The second well drilled on a proration unit shall be located on a quarter section not containing the first well and shall be located not closer than 1650 feet to the outer boundary...."

"Rule 5: A standard gas proration unit...shall be 640-acres."

(8) While the Catclaw Draw-Morrow Gas Pool is still officially "prorated", prorationing has been suspended and the wells in the pool are allowed to produce at capacity.

(9) On January 28, 1997 and without obtaining the concurrence of Fasken, as operator, or of the other working interest owners in the S/2 of Irregular Section 1, Mewbourne filed with the Division an application for approval of an unorthodox gas well location 660 feet from the south line and 2310 feet from the East line of said Section 1. This is NMOCD Case 11723 and is referred to as the "Mewbourne location" which encroaches upon Texaco who appeared at the April 3, 1997 examiner's hearing in opposition to Mewbourne's location.

(10) Mewbourne contends its location is necessary in order to compete with Texaco's Levers Well No. 2 which is producing gas from the Morrow formation.

(11) Fasken analysis indicates that Mewbourne's location is on the downthrown side of a fault and is fault separated from Texaco's Levers Well No. 2 and would not be able to compete for Morrow gas now being produced by Texaco in that wellbore. Therefore, Fasken proposed to Mewbourne and the other owners in the S/2 of Irregular Section 1 that the Morrow gas well be drilled at a location 750 feet from the West line and 2080 feet from the South line of Section 1. This is NMOCD Case 11755 and is referred to as the "Fasken location" which does not encroach upon Texaco. Fasken's proposed location will also test a Cisco structure which the parties do not believe exists at the Mewbourne location.

(12) Texaco appeared at the Division hearing in opposition to the Mewbourne location and proposed an 81.4% production penalty.

(13) Texaco acknowledged that it could not complain about the Fasken location because Fasken's location was more than 1650 feet away from the northern boundary of Texaco's unit.

(14) The Fasken location is standard as to Texaco's Section 12 but is unorthodox as to Section 2 which is operated by Penwell Energy Inc. who waived any objection to Fasken's location.

(15) On April 3 and 4, 1997, the Division held an evidentiary hearing before Examiner Stogner at which Fasken, Mewbourne and Texaco each presented geological evidence in an effort to support their respective positions.

(16) On September 12, 1997, the Division entered Order R-10872 approving the Fasken location and denying the Mewbourne location.

(17) Although Fasken has a legitimate business disagreement with Mewbourne with respect to the optimum well location, on April 30, 1997, Mewbourne filed litigation in a District Court in Midland, Texas, contending that Fasken, among other things, owed Mewbourne a fiduciary duty and that Fasken had breached the Joint Operating Agreement by proposing an alternative location for approval by the Division. These contractual issues are still in litigation.

(18) At the Examiner hearing, Mewbourne attempted to introduce testimony and evidence concerning this contractual dispute and asked the Division Examiner to adjudicate certain issues related to those contractual matters.

(19) At the hearing held on April 3 and 4, 1997, for the first time, Mewbourne Oil Company raised a question about the standing of Fasken Oil and Ranch, Ltd. to be an applicant in Case 11755. In order that there be no question about the real party applicant in interest, Fasken Land and Minerals, Ltd. requested that it be added as a co-applicant in Case 11755. That procedural pleading issue was resolved by the Division when it granted over Mewbourne's objection, Fasken's application to have both Fasken Land and Minerals, Ltd and Fasken Oil and Ranch, Ltd. interplead as parties.

(20) In its motion for a stay of the Division order, Mewbourne continues to complain to the Division concerning its contractual dispute with Fasken. Among other things, Mewbourne complains that by awarding operations to Fasken the Division has ignored the Operating Agreement.

Commission's Decisions concerning motions

(21) The Commission denies Mewbourne's motion to dismiss Fasken's Case 11755 for the following reasons:

(a) On April 1, 1970, Monsanto Company, as operator, and David Fasken, Len Mayer, Robert L. Haynie, Gulf Oil Corporation, Atlantic Richfield Company, Union Oil Company of California, and Texaco, Inc. as working interest owners, entered into a Joint Operating Agreement. **(Mewbourne Exhibit 3)**

(b) David Fasken's oil and gas interests subject to the Joint Operating Agreement are now held by Fasken Land and Minerals, Ltd. as owner, and Fasken Oil and Ranch Ltd. as manager, pursuant to a Management Agreement dated December 15, 1995. Fasken Oil and Ranch, Ltd., as manager and on behalf of Fasken Land and Minerals, Ltd, as owner, filed NMOCD Case 11755. The ownership of Fasken Oil and Ranch, Ltd. and Fasken Land and Minerals, Ltd. is identical. **(Fasken's response to Mewbourne Motion to dismiss, including affidavit of Sally Kvasnicka).**

(c) Currently, Fasken Land and Minerals, Ltd. is the operator of the southern portion of Irregular Section 1, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, as a result of a Joint Operating Agreement dated April 1, 1970 which includes Mewbourne Oil Company ("Mewbourne") Matador Petroleum Corporation, Devon Energy Corporation, and others, as non-operators. **(Mewbourne Exhibit 3)**

(d) Mewbourne contends that Fasken Oil and Ranch does not have any ownership interest in the proposed spacing unit and therefore cannot file an application before the Division or have the Division designate the operator of this spacing unit.

(e) In order that there be no question about the real party applicants in interest, Fasken Land and Minerals, Ltd. requested that it be added as a co-applicant in Case 11755. The Division granted that request. Before the Commission, Mewbourne renewed its motion to dismiss Case 11755.

(f) Mewbourne concedes that Fasken Land and Minerals, Ltd is an interest owner in this spacing unit. **(Mewbourne exhibit 2)**

(g) The Commission's practice is to allow any affected interest owner in cases before the Commission to appear and be represented individually or by its farmee, agent or its operating company.

(h) any procedural issue was resolved by the Division when it granted over Mewbourne's objection, Fasken's application to have both Fasken Land and Fasken Oil interplead as parties.

(22) The Commission granted Fasken's request that the Commission limit evidence and argument to the geologic and engineering issues and exclude from the DeNovo hearing any evidence or argument concerning the "Fasken-Mewbourne contractual dispute" which is currently the subject of litigation in State District Court, Midland County, Texas, and in doing so decided that it did not have jurisdiction over the following issues:

(a) what type of activities constitutes "actually commence work on the proposed operations" pursuant to Article 12 of the joint operating agreement. **See Examiner Transcript p. 27.**

(b) interpretations and constructions of the "consent/non-consent" election pursuant to Article 12 of the Joint Operating Agreement-1956 AAPL form. **See Examiner Transcript p. 26.**

(c) interpretations and constructions of any limitations or prohibitions for multiple well proposals under Article 12 of the Joint Operating Agreement-1956 AAPL form. **See Examiner Transcript p. 26.**

(d) that only Fasken Land and Minerals, Ltd. and not Fasken Oil and Ranch, Ltd. can exercise the rights and obligations of Fasken under the Joint Operating Agreement. **See Examiner Transcript p. 22-23.**

(e) the priority of multiple well proposals made pursuant to the Joint Operating Agreement. **See Examiner Transcript p. 11, 26-27.**

Jurisdiction

(23) The Commission finds that all these contractually related issues and associated legal opinions are irrelevant and inadmissible as to any of the issues properly before the Commission concerning approval of well locations which may adversely affect correlative rights, for reasons which include the following:

(a) The New Mexico state courts have repeatedly recognized that the Commission is the administrative agency with the "experience, technical expertise and specialized knowledge" to deal with geologic and engineering data also as to prevent waste of a valuable resources and protect the correlative rights of all participants.

(b) However, the Commission cannot under the guise of meeting its statutory mandate to prevent waste and protect correlative rights act as an adjudicator of contractual controversies.

(c) Correctly, the Division has refused to adjudicate these issues because the Division does not have jurisdiction to decide contractual disputes. Notably absent from the enumeration of its powers, is the power to interpret contracts and operating agreements and to require specific enforcement of those contract or, in the alternative, to award money damages for any breach of those agreements. **Section 70-2-12.B NMSA 1979.**

(d) Mewbourne and Fasken are already litigating these contract issues and other issues in a Texas State District Court in Midland County, Texas. The appropriate forum and remedies for resolving those contractual disputes exist but resides with the court.

(e) Regardless of those litigation issues, the Commission has and must address issues relating to the prevention of waste and the protection of correlative rights.

(f) the Commission has done so in this case by disregarding all these contractual issues and declaring that both Fasken and Mewbourne have the right to develop the Morrow formations in this spacing unit.

(g) the Commission has done so by focusing on the geologic evidence "...in order to assure the adequate protection of correlative rights, the prevention of waste and in order to prevent the economic loss caused by the drilling of unnecessary wells..."

Geological and petroleum engineering dispute

(24) Fasken, relying upon 2-D seismic data, 3-D seismic data obtained from Matador Petroleum Corporation and subsurface geological data, presented substantial geologic evidence which demonstrated that:

(a) 3-D seismic data shows a major north/south Morrow cutting fault separates the Fasken location and Texaco wells on the west side of this fault from the Mewbourne location on the east side of this fault. Mewbourne's location is on the down thrown side of this fault.

(b) No Morrow sands will communicate or drain across this fault.

(c) The Mewbourne location is at a structural disadvantage in the Morrow because both the Upper and Lower Morrow sands become wet in lower structural positions.

(d) Lower Morrow channel sands trend north-northwest to south-southwest, have a very good permeability, drain long distances, become wet down dip and have more productive potential farther away from areas older wells have drained.

(e) Middle Morrow marine influenced sands trend east-northeast to west-southwest, range from very good to very poor permeability, do not correlate in a north-south direction and did not communicate or drain effectively in a north-south one half mile distance between the Texaco's Levers #1 and #2 wells in Section 12.

(f) Because the Mewbourne location is on the east side of a fault while the Texaco Levers #2 well is on the west side of this fault, a well drilled at the Mewbourne location will not be able to complete with the Texaco Levers #2 well which is draining the Middle Morrow (Green sand) reservoir west of the Mewbourne location.

(g) The Upper Morrow sand is productive in structurally high areas like the Fasken location and wet in structurally low areas like the Mewbourne location.

(h) The Fasken location will be higher and closer to the Conoco Levers #2 well in Section 2 which had a good gas show (I.P. 2.90 MMCFPD) but watered out in the Upper Morrow "A" Sand than the Mewbourne location.

(i) The Cisco has productive potential at the Fasken location because the 3-D seismic shows a time structure with fourway closure, an isochron thin from the 3rd Bone Springs sand to the top of the Cisco and an isochron thick from the top of the Cisco to the Middle Morrow Shale.

(j) In order to minimize the risk involved, it is necessary to drill a well at a location in this spacing unit which can test for both Cisco and Morrow gas Production.

(k) No Cisco potential exists at the Mewbourne location.

(l) that Fasken's location would help Penwell, the offset operator toward whom the location encroached, evaluate its own acreage at the risk of Fasken. Accordingly Penwell did not object.

(25) Fasken presented projection of estimates of ultimate gas recovery and volumetric calculations which confirmed that the Fasken geologic interpretation was of a sufficient size to contain all of the gas to be produced from the Middle Morrow (Fasken's green and blue sands).

(26) Mewbourne disregarded the opportunity to obtain and use the same 3-D seismic data and therefore was unable to provide an interpretation concerning the presence or absence of a fault separating the Mewbourne location from the Texaco Levers #2.

(27) Mewbourne presented subsurface geological interpretations from which it contended that its location was better than the Fasken location because:

(a) its primary objective was a portion of the Middle Morrow (Mewbourne's Green sand) which is currently being produced by the Texaco Levers #2.

(b) that it is Mewbourne's strategy to look for good gas wells such as the Texaco Lever #2 and then to acquire an acreage position and attempt to obtain approval to drill a well as close as possible to that "good well".

(c) Mewbourne had declared that it will not participate in the Fasken well.

(d) At the Examiner's hearing, Mewbourne presented an isopach of its "green sand" with a northeast to south-southwest orientation so that within the subject spacing unit it estimated 26 feet of thickness at the Texaco Levers #2 well, 26 feet for the Mewbourne location and 13 feet of thickness at the Fasken location.

(e) At the Examiner hearing, Mewbourne testified that 13-15 feet of green sand was sufficient to make a commercial well in this interval.

(f) However, at the Commission hearing, Mewbourne changed its green sand map so that the Fasken location now would have less than 8 feet with the Mewbourne location having 22 feet and with the total size of this reservoir being substantially reduced.

(28) Mewbourne then presented petroleum engineering opinions and contended that:

(a) estimates that the Texaco Lever's #2 would ultimately produce 5.5 BCF of gas and that only 3.8 BCF of gas was now remaining

(b) the remaining share of recoverable gas underlying the S/2 of Section 1 was only 1.1 BCF which is only sufficient to recover the costs of a well.

(c) that the Mewbourne location should not be penalized because it should be allowed to recover a volume of gas equal to what was originally under this spacing unit before Texaco's Levers #2 well was produced. Mewbourne argued that this was necessary because Texaco had produced illegal gas.

(d) Mewbourne contends that Texaco drilled its Levers #2 well in violation of the rules affecting this pool.

(29) Texaco presented geological interpretations based exclusively on subsurface geology which demonstrated that:

(a) using the same data used by Mewbourne, Texaco contended that the "green" sand being produced in the Texaco Levers #2 well was oriented such that the Fasken location was substantially better than the Mewbourne location.

(b) if the Mewbourne location was approved, then a substantial penalty was necessary in order to keep the Mewbourne well from draining gas reserves for which it was not entitled.

(c) Texaco recommended that the Mewbourne location be denied, but if approved that it be subject to a 81.4% production penalty.

(30) In order to assure the adequate protection of correlative rights, the prevention of waste and in order to prevent the economic loss caused by the drilling of unnecessary wells, the Commission should approve the Fasken location and deny the Mewbourne location for the following reasons:

(a) that the seismic data available to all parties, but used only by Fasken, allowed Fasken to present a more complete and thorough geological evaluation which the Commission adopts in this case.

(b) the Commission should require parties in a spacing unit to drill a location for which there is no objection if there is evidence supporting a reasonable opportunity to drill a well at such a location.

(c) although both location are risky, the Fasken location affords an opportunity to explore for Cisco gas production which is not available at the Mewbourne location.

(d) by electing not to participate in the Fasken well, Mewbourne is not assuming any risk if the Commission approves the Fasken location.

(e) Fasken's interpretation of the location of a fault separating the Mewbourne location from the Texaco Levers #2 well is reasonable and thus the Texaco Levers #2 well is draining the Middle Morrow (green) reservoir on west side of a fault separating the Texaco well from the Mewbourne location.

(f) only the Fasken location will provide that opportunity to produce these reserves before they are produced by the Texaco Levers #2 well.

(g) the Middle Morrow gas reserves east of this fault in Sections 1 and 12 are not being produced by Texaco and therefore the drilling of the Mewbourne location can be postponed.

(h) only one well should be approved in the spacing unit because two might cause economic loss by the drilling of a second well which might not be necessary at this time.

(i) denial of the Mewbourne location protects Texaco's correlative rights by not subjecting Texaco to encroachment for which they objected and it avoids having to impose a production penalty which in all probability would not protect Texaco.

(j) it protects the correlative rights of Fasken and Mewbourne by approving the Fasken location which is unopposed and therefore does not require any production penalty.

(k) it prevents waste by affording the opportunity to test the Cisco formation at the Fasken location and potentially produce new gas that might not otherwise be produced or discovered.

The proposed non-standard gas proration and spacing unit

(31) The formation of this 297.88-acre non-standard gas spacing and proration unit is a reasonable request because:

(a) a full sized, as nearly as possible, standard shaped 640-acre spacing and proration unit cannot be formed within this irregularly shaped section because the needed acreage will not be offered by the U. S. Bureau of Land Management for mineral leasing.

(b) the formation of the mutually requested 297.88 gas spacing and proration unit was not the subject of any opposition, is in the best interest of conservation, and will serve to prevent waste and should be therefore be approved.

The Texaco Request

(32) Commission finds that it is not necessary to grant Texaco's request for an exception to the Catclaw Draw-Morrow Gas Pool Rules because Texaco is not in violation of those rules because:

(a) The Commission had the authority to adopt rules and regulations and to issues orders and to interpret those orders and rules. In addition, the Commission has continuing jurisdiction over all of this orders and rules.

(b) On August 26, 1981, the Division issued Order R-4157-D which rescinded Orders R-4157, R-4157-A, R-4157-B and R-4157-C and adopted rules for this pool including:

Rule 5(A): 640-acre gas spacing units

Rule 2(A): initial well to be drilled not closer than 1650 feet to an outerboundary,

Rule 2(B): authorizing the drilling of a second well in a 640-acre spacing unit provided that well also was not closer than 1650 feet to the outer boundary. (an "infill well")

(c) Although gas prorationing was suspended in the Catclaw Draw-Morrow Gas Pool by Division Order R-10328, issued by the Commission in Case 11211 on March 27, 1995, that order did not rescind Order R-4157-D which was issued on April 1, 1981.

(d) On March 28, 1996, the Commission issued Order R-8170 which adopted new General Rules and Regulations for prorated gas pools in New Mexico and repealed the prior prorationing rules (Order R-1670) and contains a summary of the special pool rules for these pools but in summarizing the Catclaw Draw-Morrow Gas Pool rules failed to refer to the rule which permits the "infill well".

(e) By issuing Order R-8170, the Commission was adopting new General Rules dealing with prorationing and was not modifying the special rules for Catclaw Draw-Morrow Gas Pool.

(f) Rule 2(B) of the special pool rules for Catclaw Draw-Morrow Gas Pool is still in full force and effect and has been since being made effective on September 1, 1981.

(33) Having determined that:

(a) Rule 2(B) of the special pool rules for Catclaw Draw-Morrow Gas Pool is still in full force and effect and has been since being made effective on September 1, 1981;

(b) Texaco's E. J. Levers Federal "NCT-1" Well No. 2 was drilled in compliance with Division rules it is not necessary to either (a) grant simultaneous dedication for wells in this pool or to (b) grant an exception from these rules for its E. J. Levers Federal "NCT-1 Wells No 1 and 2 located in Section 12, T21S, R25E, Eddy County, New Mexico.

(c) it is not necessary to grant an exception from these rules for its E. J. Levers Federal "NCT-1 Wells No 1 and 2 located in Section 12, T21S, R25E, Eddy County, New Mexico.

(d) Fasken's request for a declaration that all gas production from Texaco Exploration and Production, Inc. ("Texaco") E. J. Levers Federal "NCT-1" Well No. 2 be declared "illegal gas" should be denied.

Therefore, Texaco's application for clarification of the rules to be applied to second wells on spacing units in the Catclaw-Draw Morrow gas Pool should be **approved** based upon the findings contained in this order.

IT IS THEREFORE ORDERED THAT:

(1) The request of both Fasken Land and Minerals, Ltd. and Fasken Oil and Ranch, Ltd. ("Fasken"), as the applicant in Case 11755 and Mewbourne Oil Company ("Mewbourne"), as the applicant in Case 11723, to establish a non-standard 297.88-acre gas spacing and proration unit for the Catclaw Draw-Morrow Gas Pool production comprising Lots 29,30,31 and 32 and the SW/4 (S/2 equivalent) of Irregular Section 1, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, is hereby **approved**.

(2) Fasken's proposed unorthodox Morrow and Cisco gas well location for said 297.88-acre unit being 2080 feet from the South line and 750 feet from the West line (Unit L) of said Irregular Section 1 is hereby **approved**.

(3) Mewbourne's proposed unorthodox Morrow gas well location for said 297.88-acre unit being 660 feet from the South line and 2310 feet from the East line (Lot 31/Unit W) of said Irregular Section 1 is hereby **denied**.

(4) Texaco Exploration and Production, Inc. ("Texaco") application for clarification of the rules to be applied to second wells on spacing units in the Catclaw-Draw Morrow gas Pool is hereby **approved**.

(5) Fasken's request for a declaration that all gas production from Texaco Exploration and Production, Inc. ("Texaco") E. J. Levers Federal "NCT-1" Well No. 2 be declared "illegal gas" is hereby **denied**.

(6) Jurisdiction of this cause is retained for the entry of such further order as the Division may deem necessary.

DONE at Santa Fe, New Mexico, o the day and year hereinabove designated.

WILLIAM J. LEMAY, Chairman

WILLIAM WEISS, member

JAMI BAILEY, member