

**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. 13305
ORDER NO. R-12287**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR AN EXCEPTION TO
DIVISION RULE 104.C.(2)(c), EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 5, 2004, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 23rd day of February, 2005, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, **Mewbourne** Oil Company ("**Mewbourne**"), seeks an exception to Division Rule 104.C.(2)(c) to allow two operators in all formations developed on 320-acre spacing in the N/2 equivalent of irregular Section 19, Township 21 South, Range 27 East, **NMPM**, Eddy County, New Mexico. This unit will be simultaneously dedicated in the Morrow formation, Burton Flat-Morrow Gas Pool, to the existing **RGD** Well No. 1 (API No. 30-015-30175) located at a previously approved unorthodox Morrow gas well location 660 feet from the North line and 840 feet from the East line (Unit A), which is currently operated by **Wynn-Crosby** Energy, Inc. ("**Wynn-Crosby**"), and to the proposed **Esperanza** "19" Federal Com Well No. 2 (API No. 30-015-33494) which will be directionally drilled from a non-standard surface location 599 feet from the North line and 2043 feet from the East line (Unit B) to a standard bottomhole location approximately 780 feet from the North line and 1463 feet from the West line (Unit C), which will be drilled and operated by Mewbourne. This unit will also be simultaneously dedicated in the **Strawn and/or** Atoka formations to the existing Pioneer Federal Com Well No. 1 (API No. 30-015-24777) located 1980 feet from the North line

and 1740 feet from the East line (Unit G), which is currently operated by **Vernon E. Faulconer, Inc. ("Faulconer")**, and to the aforesaid **Esperanza "19"** Federal Com Well No. 2.

(3) Division Rule 104.C.(2) provides that in Southeast New Mexico, an initial and infill well may be drilled on a standard gas spacing and proration unit comprising 320 acres **provided** that: (i) the initial and infill well shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; (ii) the infill well shall be located within the quarter section not containing the initial well; and (iii) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(4) Division records show that the RGD Well No. 1 was drilled in April 1998 by KCS Medallion Resources, Inc., and was completed in the Burton Flat-Morrow Gas Pool through perforations from 11,196-11,401 feet. Division records further show that Wynn-Crosby assumed **operatorship** of the well effective June 1, 2002.

(5) Division records also show that:

- (a) the Pioneer Federal Com Well No. 1 was drilled in 1984 by TXO Production Corporation. The well was initially completed as an oil well in the **Wolfcamp** formation through perforations from 8,952-8,960 feet, and as a gas well in the Burton Flat-Morrow Gas Pool through perforations from 11,187-11,216 feet. The well was subsequently produced as a single Morrow completion only;
- (b) Marathon Oil Company ("Marathon") assumed operatorship of the well effective January 1, 1991;
- (c) in 1991, Marathon permanently abandoned the Wolfcamp and Morrow formations in the well and subsequently completed the **Strawn** and Atoka formations through perforations from 10,258-10,594 feet;

- (d) by Order No. DHC-830 dated December 13, 1991, the Division authorized Marathon to **downhole** commingle the **Strawn** and Atoka formations within the Pioneer Federal Com Well No. 1. This order designated the well to be producing from the **Wildcat-Strawn** and **Undesignated La Huerta-Atoka** Gas Pools;
- (e) by Order No. R-9668 dated May 6, 1992, the Division created the Carlsbad **Springs-Strawn** Gas Pool. This pool currently comprises the N/2 of Section 19. The discovery well for the pool was the Pioneer Federal Com Well No. 1;
- (f) the Pioneer Federal Com Well No. 1 is currently being produced as a downhole commingled completion in the Undesignated La **Huerta-Atoka** and Carlsbad Springs-Strawn Gas Pools; and
- (g) Faulconer assumed operatorship of the Pioneer Federal Com Well No. 1 from Marathon in November, 2000.

(6) Division production records show that the Pioneer Federal Com Well No. 1 is currently being incorrectly reported by Faulconer as a downhole commingled completion in the La Huerta-Atoka and La **Huerta-Strawn** Gas Pools.

(7) Mewbourne testified that the primary objective within the proposed **Esperanza "19"** Federal Com Well No. 2 is the Morrow formation. Secondary targets in the well include both the Strawn and Atoka intervals.

(8) Mewbourne further testified that the proposed directional drilling is necessary in order to avoid a housing subdivision at or near the City of Carlsbad.

- (9) Mewbourne presented evidence that demonstrates that:
- (a) the N/2 of Section 19 is comprised of two separate Federal leases. One lease comprises Lots 1 and 2, (W/2 NW/4 equivalent) and the other lease comprises the E/2 NW/4 and NE/4;
 - (b) the N/2 of Section 19 is subject to an operating agreement dated January 20, 1984 that designates TXO Production Corporation as operator; and
 - (c) within the N/2 of Section 19, Federal **Communitization** Agreement No. NMNM-100728 dated May 1, 1998, is in effect for the Morrow formation and Federal Communitization Agreement No. NMNM-85343 dated August 14, 1991, is in effect for the Strawn and Atoka formations.

(10) The evidence presented demonstrates that by virtue of various agreements that have been executed within the N/2 of Section 19, the interest ownership between the RGD Well No. 1, Pioneer Federal Com Well No. 1 and the **Esperanza "19"** Federal Com Well No. 2 is not common. In addition, the operating rights to the Strawn formation have been segregated from the operating rights to the Morrow and Atoka formations in the RGD Well No. 1 and the Esperanza "19" Federal Com Well No. 2. Consequently, the interest ownership between the Strawn and the **Atoka/Morrow** intervals in the RGD Well No. 1 and the Esperanza "19" Federal Com Well No. 2 is not common.

(11) Mewbourne owns no interest in the RGD Well No. 1 or the Pioneer Federal Com Well No. 1, but has recently acquired, via a **farmout** agreement, all of **Faulconer's** interest in the spacing unit, including interest in the Atoka, Strawn and Morrow formations. Pursuant to this agreement, Faulconer will retain its interest in the Pioneer Federal Com Well No. 1 and will continue to operate this well. This agreement further stipulates that Mewbourne will report production to the Division for the Pioneer Federal **Com Well** No. 1.

(12) Mewbourne further testified that **Wynn-Crosby** does not desire to drill and operate a second Morrow producing well on this spacing unit but has agreed to participate as an interest owner with Mewbourne in the drilling of the Esperanza "19" Federal **Com Well** No. 2.

(13) Mewbourne presented further evidence and testimony that demonstrates that:

- (a) within the proposed Esperanza "19" Federal Com Well No. 2 there are six (6) interest owners in the **Atoka/Morrow** interval, sixteen (16) interest owners in the Strawn interval, and six (6) interest owners who own an interest in both the **Atoka/Morrow** and Strawn intervals;
- (b) all of the interest owners in the **Atoka/Morrow** interval in the proposed Esperanza "19" Federal Com Well No. 2 have voluntarily agreed to participate with Mewbourne in the drilling of the well;
- (c) in the event the well is recompleted to the Strawn formation at some future time, Mewbourne will seek, at that time, to secure the voluntary participation of those interest owners in the Strawn formation;
- (d) Mewbourne has acquired letters of support for its proposal to drill the Esperanza "19" Federal Com Well No. 2 from some, but not all, of the interest owners in the N/2 of Section 19; and
- (e) Mewbourne has provided notice of its application to all interest owners within the N/2 of Section 19. No interest owner appeared at the hearing in opposition to the application.

(14) Approval of the subject application will provide Mewbourne the opportunity to recover additional gas from the Burton Flat-Morrow Gas Pool, and from the Strawn and Atoka formations within the N/2 of Section 19 which may otherwise not be recovered, thereby preventing waste.

(15) No interest owner within the N/2 of Section 19 has objected to Mewbourne's proposed operation.

(16) The application should be approved.

IT IS THEREFORE ORDERED THAT;

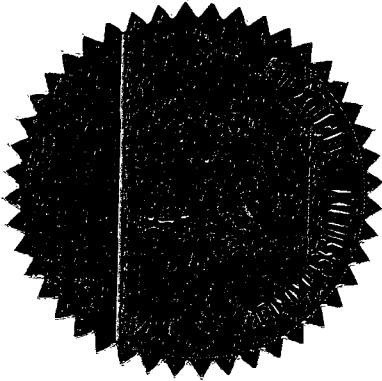
(1) The applicant, Mewbourne Oil Company is hereby granted an exception to Division Rule 104.C.(2)(c) to allow two operators in all formations developed on 320-acre spacing within an existing 320 acre gas spacing and proration unit comprising the N/2 of irregular Section 19, Township 21 South, Range 27 East, **NMPM**, Eddy County, New Mexico. This unit shall be simultaneously dedicated in the Morrow formation, Burton Flat-Morrow Gas Pool, to the existing RGD Well No. 1 (API No. 30-015-30175) located at a previously approved unorthodox Morrow gas well location 660 feet from the North line and 840 feet from the East line (Unit A), which is currently operated by **Wynn-Crosby** Energy, Inc., and to the proposed Esperanza "19" Federal Com Well No. 2 (API No. 30-015-33494) which will be directionally drilled from a non-standard surface location 599 feet from the North line and 2043 feet from the East line (Unit B) to a standard **bottomhole** location approximately 780 feet from the North line and 1463 feet from the West line (Unit C), which will be drilled and operated by Mewbourne Oil Company.

(2) In the event that the Esperanza "19" Federal Com Well No. 2 is completed in the Strawn **and/or** Atoka **formation(s)**, the applicant is hereby further authorized to simultaneously dedicate the N/2 of irregular Section 19 in the Undesignated La Huerta-Atoka and Carlsbad Springs-Strawn Gas Pool to the Esperanza "19" Federal Com Well No 2 and to the existing Pioneer Federal Com Well No. 1 (API No. 30-015-24777) located 1980 feet from the North line and 1740 feet from the East line (Unit G), which is currently operated by **Vernon E. Faulconer, Inc.**

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

Case No. 13305
Order No. R-12287
Page -7-

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, reading 'Mark E. Fesmire, P.E.'.

MARK E. FESMIRE, P.E.
Director