



ENERGY AND MINERALS DEPARTMENT
WASHINGTON, D.C. 20540

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TO: OPERATORS IN BASIN-DAKOTA AND BLANCO-MESAVERDE POOLS

FROM: WILLIAM J. LEHAY, DIVISION DIRECTOR *WJL*

SUBJECT: NON-STANDARD PRORATION UNITS

There has been a number of applications for exceptions to Rule 5(a)(2) of Order No. R-8170 for wells located on 160 acres, more or less, non-standard proration units. At the hearings on such applications showing was made that there is an inequity where two 160-acre proration units, having one well on each unit, are compared to a 320-acre proration unit having two wells of similar deliverability in the proration unit. The proposed solution to this inequity is to give the wells a full deliverability in the AD factor portion of the allowable.

Such proposed solution has the following disadvantages:

1. It is contrary to the formula adopted by the original spacing order and the order permitting the second well on each proration unit.
2. It creates an inequity between a 160-acre unit with one well as compared to a 320-acre unit with one well.
3. The proration system would have to be revamped to accommodate the exceptions.
4. The variation of unit sizes is such a common phenomenon that attempting to adjust for deviations in the manner requested constitutes a reservoir-wide problem which should be addressed in rule changes rather than in exceptions to the rules.

Page 2
Memorandum
April 15, 1987

5. Wide-spread exceptions as are being requested amount to changing the proration formula by substituting to a straight deliverability factor.

The inequities which are apparent in the cases brought before the Division should be addressed by changes in the proration formula or rules implementing them.

All currently pending applications for such exceptions will be denied. All orders approving such exceptions which have been entered but not implemented will be rescinded. All orders which have been implemented, will be suspended immediately.

Any party considered aggrieved by this action is invited to file application for a change in the protection formula for the two pools involved, or either of them, or in the rules implementing the formulas together with a plan and analysis showing that a different formula or procedure will be more equitable than the existing rules.

April 17, 1987
Ed/

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

RECEIVED
JAN 29 1987
OIL CON. DIV.
DIST. 3

CASE NO. 9027
Order No. R-8387

APPLICATION OF P-R-O MANAGEMENT, INC.
FOR THREE NON-STANDARD GAS PRORATION
UNITS, SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 5, 1986, December 3, 1986, and on January 7, 1987 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 26th day of January, 1987, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, 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 this cause and the subject matter thereof.

(2) At the time of the November 5 and December 3 hearings, this case was consolidated with Division Case Nos. 9026, 9028, and 9029 for the purposes of testimony.

(3) The applicant, P-R-O Management, Inc., seeks approval of the following three 160-acre non-standard gas proration units all in the Basin-Dakota Pool, San Juan County, New Mexico:

- A) the NW/4 of Section 19, Township 27 North, Range 11 West, to be dedicated to its Federal Well No. 1-E located at a previously approved non-standard gas well location (Administrative Order NSL-1156) 1120 feet from the North line and 2300 feet from the West line (Unit C) of said Section 19;
- B) the SE/4 of Section 5, Township 30 North, Range 13 West, to be dedicated to its Knight Well No. 1-E located 1820 feet from the South line and

690 feet from the East line (Unit I) of said Section 5; and,

- C) the SE/4 of Section 21, Township 31 North, Range 13 West, to be dedicated to its Johnson Well No. 1-E located 1120 feet from the South and East lines (Unit P) of said Section 21.

(4) Each of the above-described non-standard proration units may reasonably be presumed productive of gas from the Basin-Dakota Pool and each non-standard gas proration unit can be efficiently and economically drained and developed by their respective wells.

(5) Approval of the subject application will afford the applicant the opportunity to produce his just and equitable share of the gas in the Basin-Dakota Pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

(6) The applicant further seeks an exception to the General Rules for prorated Gas Pools in Northwest New Mexico as promulgated by Division Order No. R-8170, as amended, permitting the application of a full deliverability factor in the formula utilized in determining the allowable for said units.

(7) In utilizing the current formula for calculating gas allocations in the Basin Dakota Pool as contained in said Order No. R-8170, there exists an inequity in the gas allowable assigned to a standard 320-acre proration unit containing two wells as compared to the total gas allowable assigned to two 160-acre non-standard proration units of equal deliverability which, in effect, gives an allowable advantage to the standard 320-acre unit.

(8) In order to arrive at a more equitable gas allocation to be assigned to the proposed 160-acre non-standard gas proration units, the gas allocation formula for these particular units should be modified to assign the full deliverability as the (AD) factor for allowable calculations.

(9) For the purpose of scheduling allowables, the effective date of an order issued in this case should be February 1, 1987.

(10) Approval of the subject application will afford the applicant the opportunity to produce his just and equitable

share of the gas in the Basin-Dakota Pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applications of P-R-O Management, Inc. for three 160-acre non-standard gas proration units, in the Basin-Dakota Pool, are hereby approved as follows:

- A) the NW/4 of Section 19, Township 27 North, Range 11 West, to be dedicated to its Federal Well No. 1-E located at a previously approved non-standard gas well location (Administrative Order NSL-1156) 1120 feet from the North line and 2300 feet from the West line (Unit C) of said Section 19;
- B) the SE/4 of Section 5, Township 30 North, Range 13 West, to be dedicated to its Knight Well No. 1-E located 1820 feet from the South line and 690 feet from the East line (Unit I) of said Section 5; and,
- C) the SE/4 of Section 21, Township 31 North, Range 13 West, to be dedicated to its Johnson Well No. 1-E located 1120 feet from the South and East lines (Unit P) of said Section 21.

(2) For purposes of calculating the gas allowable to be assigned to each of the above-described non-standard units, the acreage factor shall be equal to .50, and the acreage times deliverability factor shall be equal to the deliverability of the well multiplied by 1.0.

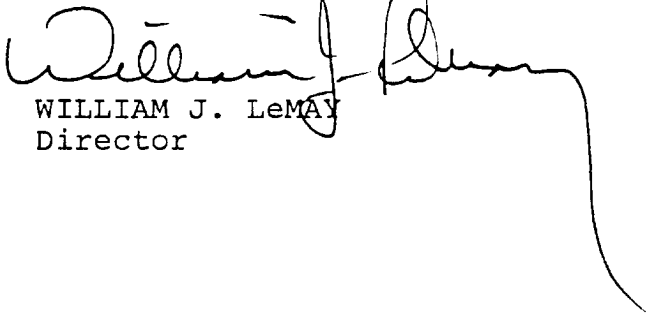
(3) The effective date of this order shall be February 1, 1987.

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

Case No. 9027
Order No. R-8387
-4-

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read 'William J. LeMay', is written over the typed name. The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

WILLIAM J. LeMAY
Director

S E A L