

**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. 12426
ORDER NO. R-11434**

**APPLICATION OF SOUTHWEST ROYALTIES, INC. FOR A NON-STANDARD
GAS SPACING AND PRORATION UNIT AND AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 13, 2000, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 3rd day of August, 2000, 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, Southwest Royalties, Inc. ("Southwest"), seeks an exception to the well location (Rule 3) and spacing (Rule 6) requirements provided within the "*Special Rules and Regulations for the Scarborough Yates-Seven Rivers Pool*," set forth in Division Order No. R-2999, issued in Case No. 3316 and dated November 23, 1965, for: (i) the formation of a non-standard 200-acre gas spacing and proration unit comprising the S/2 NE/4, NE/4 SE/4 and S/2 SE/4 of Section 30, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, and (ii) the dedication of this unit to its existing Eaves "B" Well No. 20 (API No. 30-025-32274) located at an unorthodox gas well location 1414 feet from the South line and 429 feet from the East line (Unit I) of Section 30.

(3) Rules 3 and 6 of the “*Special Rules and Regulations for Scarborough Yates-Seven Rivers Pool*” currently require standard 640-acre gas spacing and proration units with wells to be located no closer than 1980 feet to the outer boundary of the section and no closer than 330 feet to any quarter-quarter section line or subdivision inner boundary.

(4) Rules 2 and 5 of the “*Special Rules and Regulations for Scarborough Yates-Seven Rivers Pool*” currently require standard 40-acre oil spacing and proration units with wells to be located no than 330 feet to any quarter-quarter section line or subdivision inner boundary.

(5) The applicant testified that there has never been a gas well in the Scarborough Yates-Seven Rivers Pool spaced on 640 acres.

(6) The applicant presented evidence that the following wells within the Scarborough Yates-Seven Rivers Pool were permitted as gas wells with less than 640-acre dedication:

(a) pursuant to Division Order No. R-683, dated July 14, 1955, the Gruy Petroleum Management Company, Parker A Federal Well No. 1 (**API No. 30-025-12077**), located in Unit D of Section 29, Township 26 South, Range 37 East, NMPM, having 320-acre dedication, and currently active;

(b) pursuant to Division Administrative Order No. NSP-468, dated January 30, 1959, the McCasland Management, Inc., State O Well No. 3 (**API No. 30-025-12094**), located in Lot 3 of Section 32, Township 26 South, Range 37 East, NMPM, having 153.12-acre dedication, and currently shut-in;

(c) the McCasland Management, Inc., State O Well No. 4 (**API No. 30-025-25633**), located in Unit B of Section 32, Township 26 South, Range 37 East, NMPM, having 40-acre dedication, and currently active;

(d) the McCasland Management, Inc., State O Well No. 5 (**API No. 30-025-25668**), located in Unit C of Section 32, Township 26 South, Range 37 East, NMPM, having 40-acre dedication, and currently shut-in;

(e) the McCasland Management, Inc., State O Well No. 6 (**API No. 30-025-25774**), located in Unit D of Section 32, Township 26 South, Range 37 East, NMPM, having 40-acre dedication, and currently shut-in; and

(f) pursuant to Division Administrative Order No. NSP-503, dated September 14, 1959, the Melzer and Henderson, Federal F Well No. 1, located in Lot 2 of Section 32, Township 26 South, Range 37 East, NMPM, having 160-acre dedication, and currently plugged and abandoned.

(7) Division records indicate that the above described Parker A Federal Well No. 1, State O Well No. 3 and Federal F Well No. 1 were permitted as gas wells with less than 640-acre spacing prior to the Scarborough Yates-Seven Rivers special pool rules.

(8) Additionally, Division records indicate that the above-described McCasland Management, Inc. State O Well No. 4, McCasland Management, Inc. State O Well No. 5 and McCasland Management, Inc. State O Well No. 6 are not gas wells with less than 640-acre spacing, but oil wells that were properly spaced pursuant to Division Order No. R-2999.

(9) The Scarborough Yates-Seven Rivers Pool currently comprises the following described area:

TOWNSHIP 26 SOUTH, RANGE 36 EAST, NMPM

Section 12: E/2
Section 13: E/2
Section 24: E/2
Section 25: E/2
Section 36: NE/4

TOWNSHIP 26 SOUTH, RANGE 37 EAST, NMPM

Section 6: SW/4 SW/4
Section 7: W/2 E/2, W/2
Section 18: W/2 NE/4, W/2, SE/4
Section 19: W/2 NE/4, W/2, SE/4
Sections 29 through 33: All.

(10) By Division Order No. R-9949, issued in Case No. 6337 and dated August 30, 1998, the Division, upon application of Hal J. Rasmussen Operating, Inc., approved the Eaves "B" Well No. 20 at an unorthodox oil well location in the Scarborough Yates-Seven Rivers Pool 1414 feet from the South line and 429 feet from the East line (Unit I) of Section 30.

(11) In June of 1997, Southwest temporarily abandoned the Eaves "B" Well No. 20.

(12) Southwest's evidence in support of its application does not indicate that additional reserves will be recovered that would otherwise be unrecoverable, or that correlative rights are being protected.

(13) Southwest did not present any evidence indicating that the wells in the Scarborough Yates-Seven Rivers Pool could not drain 640 acres.

(14) The creation of a 200-acre non-standard gas spacing and proration unit in the S/2 NE/4, NE/4 SE/4 and S/2 SE/4 of Section 30 would:

(a) promote disorderly pool development by leading to the formation of additional non-standard gas spacing and proration units in Section 30;

(b) result in economic waste by encouraging the drilling of unnecessary wells in Section 30 as a result of the formation of additional non-standard gas spacing and proration units; and

(c) cause inequitable drainage allowing more than one well per 640-acres.

(15) Further, the proposed unorthodox gas well location does not appear to protect the correlative rights of the "affected persons."

(16) Southwest did not present any evidence as to why forced pooling in this case is not an option.

(17) No affected party appeared at the hearing or objected to this application.

(18) Based on the evidence presented, Southwest's request does not appear to be based on drainage, but on leases held by Southwest. Additionally, Southwest's

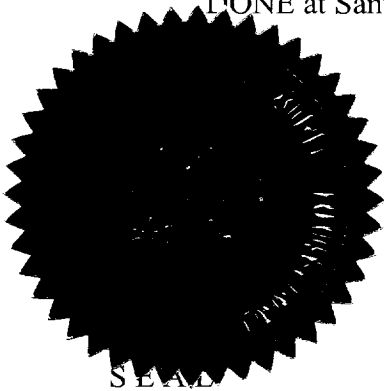
request appears to be made only for the purpose of avoiding the one well per 640-acres limit, appears to promote waste, does not serve to protect correlative rights, promotes the drilling of unnecessary wells and should therefore be denied.

IT IS THEREFORE ORDERED THAT:

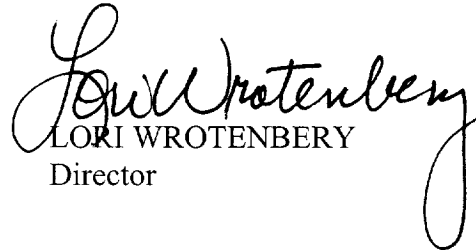
(1) The application of Southwest Royalties, Inc., seeking an exception to the well location (Rule 3) and spacing (Rule 6) requirements provided within the "*Special Rules and Regulations for the Scarborough Yates-Seven Rivers Pool*," set forth in Division Order No. R-2999, issued in Case No. 3316 and dated November 23, 1965, for: (i) the formation of a non-standard 200-acre gas spacing and proration unit comprising the S/2 NE/4, NE/4 SE/4 and S/2 SE/4 of Section 30, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, and (ii) the dedication of this unit to its existing Eaves "B" Well No. 20 (API No. 30-025-32274) Located at an unorthodox gas well location 1414 feet from the South line and 429 feet from the East line (Unit I) of Section 30, is hereby denied.

(2) Jurisdiction is hereby 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 hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director