

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. 11525

APPLICATION OF YATES PETROLEUM CORPORATION FOR AMENDMENT
OF THE SPECIAL RULES AND REGULATIONS FOR THE NORTH DAGGER
DRAW-UPPER PENNSYLVANIAN POOL, AS PROMULGATED BY DIVISION
ORDER NO. R-4691, AS AMENDED, TO INCREASE THE ASSIGNED
POOLWIDE DEPTH BRACKET OIL ALLOWABLE, AND THE CANCELLATION
OF OVERPRODUCTION, EDDY COUNTY, NEW MEXICO

CASE NO. 11526

APPLICATION OF YATES PETROLEUM CORPORATION FOR AMENDMENT
OF THE SPECIAL RULES AND REGULATIONS FOR THE SOUTH DAGGER
DRAW-UPPER PENNSYLVANIAN ASSOCIATED POOL, AS PROMULGATED
BY DIVISION ORDER NO. R-5353, AS AMENDED, TO INCREASE THE
ASSIGNED POOLWIDE DEPTH BRACKET OIL ALLOWABLE, AND THE
CANCELLATION OF OVERPRODUCTION, EDDY COUNTY, NEW MEXICO

ORDER NOS. R-4691-E
and
R-5353-L-2

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 2, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 14th day of August, 1996 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 hearing, both Case Nos. 11525 and 11526 were consolidated for purposes of testimony.

(3) For the North Dagger Draw-Upper Pennsylvanian Pool (being the subject of Case No. 11525) located in Eddy County, New Mexico:

(a) Division Order No. R-4691, dated December 11, 1973, promulgated temporary special rules and regulations for the North Dagger Draw-Upper Pennsylvanian Pool in Eddy County, New Mexico, thereby establishing standard 320-acre spacing for the pool and a special depth bracket allowable of 427 barrels per day for a standard 320-acre oil spacing and proration unit;

(b) by Division Order No. R-4691-A, dated February 3, 1976, spacing was changed from 320 to 160 acres and the special depth bracket allowable was reduced from 427 barrels per day for a standard 320-acre oil spacing and proration unit to 267 barrels per day for a now standard 160-acre oil spacing and proration unit;

(c) Division Order No. R-4691-B, dated October 12, 1976, left the spacing unchanged for the North Dagger Draw-Upper Pennsylvanian Pool at 160 acres but changed the special depth bracket allowable from 267 barrels per day to 350 barrels per day;

(d) Division Order No. R-4691-C, dated March 15, 1977, made permanent the temporary "*Special Pool Rules for the North Dagger Draw-Upper Pennsylvanian Pool*", as promulgated by said Order No. R-4691, as amended by said Order Nos. R-4691-A and R-4691-B;

(e) Division Order No. R-5565, dated November 1, 1977, increased the limiting gas-oil ratio ("GOR") for said pool from 2,000 cubic feet of gas per day for each barrel of

oil to 10,000 cubic feet;

(f) Division Order No. R-4691-D, dated March 21, 1991, changed once again the special poolwide depth bracket allowable from 350 barrels per day to 700 barrels per day;

(g) the current pool boundaries for the North Dagger Draw-Upper Pennsylvanian Pool in Eddy County, New Mexico are described as follows:

TOWNSHIP 19 SOUTH, RANGE 24 EAST, NMPM

| | |
|---------------------|------|
| Section 13: | E/2 |
| Section 22: | SE/4 |
| Sections 24 and 25: | All |
| Section 26: | N/2 |
| Section 27: | NE/4 |
| Section 34: | E/2 |
| Sections 35 and 36: | All |

TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM

| | |
|-------------------------|--------------|
| Section 3: | SW/4 |
| Section 8: | NE/4 and S/2 |
| Section 9: | NW/4 and S/2 |
| Section 10: | W/2 |
| Section 14: | NW/4 |
| Sections 15 through 21: | All |
| Section 22: | N/2 and SW/4 |
| Section 23: | N/2 |
| Section 24: | NW/4 |
| Section 27: | W/2 |
| Sections 28 through 30: | All |
| Section 31: | N/2 and SW/4 |
| Section 32: | N/2 |
| Section 33: | NW/4 |

TOWNSHIP 20 SOUTH, RANGE 24 EAST, NMPM

| | |
|-------------|--------------|
| Section 1: | All |
| Section 2: | N/2 |
| Section 3: | N/2 and SE/4 |
| Section 10: | NE/4 |
| Section 11: | NE/4 |
| Section 12: | NW/4 |

TOWNSHIP 20 SOUTH, RANGE 25 EAST, NMPM

| | |
|------------|------------|
| Section 6: | NW/4; and, |
|------------|------------|

(h) currently the North Dagger Draw-Upper Pennsylvanian Pool is spaced on 160-acre oil spacing and proration units and, since it is classified an "oil pool", each unit is allowed multiple wells and the simultaneous dedication of production from a single 160-acre unit is permitted, further each 160-acre unit is allowed to produce up to but not in excess of 700 barrels of oil per day and the current corresponding maximum casinghead gas allowable provides for 7,000 MCF of gas per day per 160-acre spacing and proration unit (GOR of 10,000 to one times the top oil allowable of 700 BOPD which equals 7,000 MCFPD).

(4) For the South Dagger Draw-Upper Pennsylvanian Associated Pool (being the subject of Case No. 11526) also located in Eddy County, New Mexico:

(a) "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico*", as promulgated by Division Order No. R-5353, dated January 17, 1977, caused temporary special rules and regulations for the South Dagger Draw-Upper Pennsylvanian Associated Pool in Eddy County, New Mexico to be enacted, which established 320-acre spacing, designated well locations, set the limiting gas-oil ratio at 8,000 cubic feet of gas for each barrel of oil produced and adopted a special depth bracket allowable for an oil well of 267 barrels of oil;

(b) Division Order No. R-5353-A, dated March 15, 1977, made permanent the above-described temporary pool rules;

(c) by Division Order No. R-5353-L, dated October 26, 1990, it was established that both the North Dagger Draw-Upper Pennsylvanian Pool and said South Dagger Draw-Upper Pennsylvanian Associated Pool were, "in geological and pressure communication and are in fact both part of the same pool"; therefore, the "*Special Rules and Regulations for the South Dagger Draw-Upper Pennsylvanian Associated Pool*" were temporarily changed to parallel the special rules for the adjacent North Dagger Draw-Upper Pennsylvanian

Pool (Division Order No. R-4691, as amended) to the north; said Order No. R-5353-L left the spacing unchanged at 320 acres, but modified the designated well locations, changed the limiting gas-oil ratio to 10,000 cubic feet of gas for each barrel of oil produced, and increased the special depth bracket allowable from 267 barrels of oil per day to 700 barrels of oil per day;

(d) Division Order No. R-5353-L-1, dated March 25, 1991, changed the special depth bracket allowable from 700 barrels per day to 1,400 barrels per day;

(e) Division Order No. R-10050, issued in consolidated Case 10869 and 10881 and dated January 26, 1994, specifically allowed the simultaneous dedication of acreage to both oil and gas wells and reduced the limiting gas-oil ratio from 10,000 cubic feet of gas for each barrel of oil produced to 7,000;

(f) the changes/modifications described above were made permanent by Division Order No. R-10050-A, dated October 17, 1995;

(g) the current pool boundaries for the South Dagger Draw-Upper Pennsylvanian Associated Pool in Eddy County, New Mexico are described as follows:

TOWNSHIP 20 SOUTH, RANGE 24 EAST, NMPM

| | |
|-------------------------|-----|
| Section 9: | E/2 |
| Section 10: | S/2 |
| Section 11: | S/2 |
| Section 12: | S/2 |
| Sections 13 through 15: | All |
| Section 16: | E/2 |
| Sections 22 through 26: | All |
| Sections 34 through 36: | All |

TOWNSHIP 20-1/2 SOUTH, RANGE 23 EAST, NMPM

| | |
|-------------------------------|-----|
| Irregular Sections 35 and 36: | All |
|-------------------------------|-----|

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

| | |
|-----------------------------|-----------|
| Irregular Sections 1 and 2: | All |
| Sections 11 and 12: | All |
| Section 14: | All; and, |

(h) currently the South Dagger Draw-Upper Pennsylvanian Associated Pool is spaced on 320-acre spacing and proration units with the option for multiple oil wells and multiple gas wells and allows for the simultaneous dedication of both oil and gas wells to the same 320-acre unit, further each 320-acre unit is allowed to produce up to but not in excess of 1,400 barrels of oil per day and the current corresponding maximum gas allowable provides for 9,800 MCF of gas per day for each 320-acre unit (GOR of 7,000 to one times the top oil allowable of 1,400 BOPD which equals 9,800 MCFPD).

(5) At this time the applicant in Case No. 11525, Yates Petroleum Corporation ("Yates"), seeks to amend the "*Special Rules and Regulations for the North Dagger Draw-Upper Pennsylvanian Pool*", as promulgated by said Division Order No. R-4691, as amended, changing the special poolwide depth bracket allowable for a standard 160-acre oil spacing and proration unit in said pool from 700 barrels of oil per day to 4,000 barrels of oil per day, thereby increasing the corresponding maximum gas allowable from the current 7,000 MCF of gas per day for each 160-acre unit to 40,000 MCF of gas per day for each 160-acre unit (GOR of 10,000 to one times the proposed top oil allowable of 4,000 BOPD). The applicant further seeks the cancellation of any and all overproduction cumulated in said pool on the date the requested 4,000 barrel depth bracket allowable becomes effective.

(6) In Case No. 11526 Yates seeks to amend the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico*", as promulgated by Division Order No. R-5353, as amended, changing the special poolwide depth bracket oil allowable for a standard 320-acre spacing and proration unit in said pool from 1,400 barrels of oil per day to 8,000 barrels of oil per day, thereby increasing the corresponding maximum gas allowable from the current 9,800 MCF of gas per day for each 320-acre unit to 56,000 MCF of gas per day for each 320-acre unit (GOR of 7,000 to one times the proposed top oil allowable of 8,000 BOPD). The applicant further seeks the cancellation of any and all overproduction cumulated in the pool on the date the requested 8,000 barrel depth bracket allowable becomes effective.

(7) At the time of the hearing: (a) Conoco, Inc. appeared at the hearing in objection to both applications and presented opposing evidence and testimony; (b) Nearburg Exploration Company and Mewbourne Oil Company, both of which are operators in both the subject pools, entered appearances in both cases through legal counsel; (c) Marathon Oil Company, an operator in the South Dagger Draw-Upper Pennsylvanian Associated Pool only, entered an appearance in Case No. 11526 through legal counsel; and, (d) James T. Jennings, an interest owner in both pools, also entered appearances in both cases through legal counsel.

(8) The North Dagger Draw-Upper Pennsylvanian Pool is the northern-most pool and the South Dagger Draw-Upper Pennsylvanian Associated Pool is the middle pool of an extensive dolomite fairway hydrocarbon reservoir in Eddy County, New Mexico, currently subdivided into three pools:

(a) as stated the northern-most portion, which is structurally the lowest part of this extensive continuous dolomite reservoir, is classified as an oil pool and is designated as the "North Dagger Draw-Upper Pennsylvanian (Oil) Pool";

(b) the middle portion of this continuous reservoir declines structurally from southwest to northeast and represents an extensive transition area from the gas pool to the south (Indian Basin) and the oil pool to the north (North Dagger Draw), this transitional area is classified as an associated oil and gas pool and is designated as the "South Dagger Draw-Upper Pennsylvanian Associated Pool"; and,

(c) the southern portion of which is structurally the highest and is classified as a gas pool being designated as the "Indian Basin-Upper Pennsylvanian Gas Pool", its current rules as promulgated by Division Order No. R-8170, as amended, provides for 640-acre gas spacing and proration units with the option for multiple gas wells in a single such unit with a current maximum gas allowable for this prorated gas pool of 6,000 MCFPD per 640-acre gas spacing and proration unit.

(9) For the North Dagger Draw-Upper Pennsylvanian Pool in Case No. 11525 the geologic and reservoir engineering presentations submitted by both Yates and Conoco

indicate that:

- (a) the subject North Dagger Draw-Upper Pennsylvanian Pool is an oil pool which also produces significant amounts of water along a structural axis oriented northeast to southwest consisting of brittle, vugular dolomite with good vertical permeability with the eastern edge of the reservoir being down structure and the western edge being up-structure;
- (b) the dolomite is thickest along the top of the structure and thins to the southeast;
- (c) this combination of vugs, fractures, and vertical permeability provide the necessary flow channels to permit good pressure communication within the North Dagger Draw-Upper Pennsylvanian Pool, which is evidenced by the fact new wells will encounter 800 to 1000 psi less than original reservoir pressure;
- (d) the withdrawals of reservoir fluids have caused pressure declines throughout the North Dagger Draw-Upper Pennsylvanian Pool;
- (e) there are consistent hydraulic connections and good pressure communication across the pool; and,
- (f) a number of those wells that were drilled and completed in late 1994 and early 1995 within the North Dagger Draw-Upper Pennsylvanian Pool in Sections 21, 27, 28, and 29 of Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, initially produced at high rates and, unlike wells drilled earlier in the life of this reservoir, have not experienced a rabid decline in production rates.

(10) For the South Dagger Draw-Upper Pennsylvanian Associated Pool in Case 11526 the geologic and reservoir engineering presentations submitted by both Yates and Conoco in this matter and from the record of Division Case Nos. 10869 and 10881 indicate that:

(a) the reservoir that is the subject South Dagger Draw-Upper Pennsylvanian Associated Pool is a brittle, vugular dolomite with good vertical permeability. This combination of vugs, fractures and vertical permeability provide the necessary flow channels to permit gas-cap gas to reach the perforations in wells which would otherwise normally be limited to production from the oil column;

(b) this oil column is overlain by a gas column of varying thickness regardless of structural position within the South Dagger Draw-Upper Pennsylvanian Associated Pool;

(c) many wells in the South Dagger Draw-Upper Pennsylvanian Associated Pool have been routinely perforated in the overlying gas column as evidenced by completion and producing records;

(d) the South Dagger Draw-Upper Pennsylvanian Associated Pool is a complex reservoir with a combination of gas-cap expansion, solution-gas drive, and weak water influx drive mechanisms;

(f) the "gas-cap" in the South Dagger Draw-Upper Pennsylvanian Associated Pool is in pressure communication with the oil column and extends throughout the pool;

(g) in some instances production data demonstrates that the current producing GOR for the pool is nearly 5 times greater than the original solution gas-oil ratio;

(h) under current rules, the South Dagger Draw-Upper Pennsylvanian Associated Pool is being produced such that approximately 80% of the gas produced from the oil wells in the pool is free gas-cap gas; and,

(i) a number of those wells that were drilled and completed within the South Dagger Draw-Upper Pennsylvanian Associated Pool in late 1994 and early 1995 initially produced at high rates and, unlike wells drilled earlier in the life of this reservoir, have not experienced a

rabid decline in production rates.

(11) Both parties to this case submitted additional evidence and testimony as to the potential problems or positive effects such proposed higher allowables will have on the subject pools. Such an issue however is premature at this time and since both the North Dagger Draw-Upper Pennsylvanian Pool and South Dagger Draw-Upper Pennsylvanian Associated Pool are very competitive reservoirs with several operators, and are capable of producing hydrocarbons at rates far beyond the current and existing allowable, and there are wells that are in violation of the current rules in place for the subject pool (rules that are in place to assist the Division in managing this pool in the most efficient and effective manner possible) and to assure that all operators are cooperating responsibly so that correlative rights are being protected, the pool should be brought back into a balanced state in a reasonable time frame under the current respective pool rules and allowable limitations.

(12) *Yates testified that in the summer of 1995: (a) Yates was aware that certain wells that had recently been drilled into the North Dagger Draw-Upper Pennsylvanian Pool were capable of and were actually producing at rates above the set pool allowable for the North Dagger Draw-Upper Pennsylvanian Pool; (b) Yates was concerned about restricting flow on these highly producible wells and whether such flow restriction to conform with allowables would have an adverse effect on the ultimate recovery of reserves from such wells; and, (c) Yates approached the Supervisor of the Artesia District Office of the Division to discuss the possibility of running open flow tests on such wells.*

FINDING: Neither a proposal nor an arrangement to run such tests were made with the Supervisor of the Artesia District Office of the Division; **therefore**, these tests were never performed.

(13) In March, 1996 the Supervisor of the Artesia District Office of the Division contacted Yates about overproduction occurring in this pool and sought the voluntary compliance by Yates to correct such infractions. In April, 1996 the Supervisor of the Artesia Office of the Division limited production on all units within the North Dagger Draw-Upper Pennsylvanian Pool so that such units would be restricted to the 700 barrel per day oil allowable so as not to increase the effects of overproduction or the magnitude of the overproduction. Yates further responded by filing the application in Case No. 11525.

(14) The North Dagger Draw-Upper Pennsylvanian Pool is currently overproduced in the following manner and all in Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico:

| OPERATOR | EFFECTED 160- ACRE SPACING/ PRORATION UNIT | SECTION | VOLUME OF OVERPRODUCTION (BARRELS) | DATE OVERPRODUCTION OCCURRED |
|----------|---|---------|--|------------------------------------|
| Yates | NW/4 | 21 | 7,594 | 2/1/96 |
| Yates | SW/4 | 21 | 83,236 | 2/1/96 |
| Yates | SE/4 | 21 | 53,531 | 2/1/96 |
| Yates | NW/4 | 29 | 11,884 | 2/1/96 |
| Yates | NE/4 | 29 | 60,729 | 2/1/96 |
| Yates | SW/4 | 29 | 70,641 | 2/1/96 |
| Yates | SE/4 | 29 | 132,351 | 2/1/96 |
| Yates | NW/4 | 28 | 108,594 | 2/1/96 |
| Yates | NE/4 | 28 | 136,167 | 2/1/96 |
| Yates | SW/4 | 28 | 117,283 | 2/1/96 |
| Yates | SE/4 | 28 | 206,187 | 2/1/96 |
| | | | Sub-Total: 988,197 | |
| Nearburg | NW/4 | 27 | 132,560 | 3/1/96 |
| Nearburg | SW/4 | 27 | 32,038 | 3/1/96 |
| | | | Sub-Total: 164,598 | |
| | | | TOTAL: 1,152,795 | |

(15) With the similarity of production characteristics in both the North Dagger Draw-Upper Pennsylvanian Pool and South Dagger Draw-Upper Pennsylvanian Associated Pool and the ability for operators to produce certain wells within the South Dagger Draw-Upper Pennsylvanian Associated Pool at rates in excess of the pool's set allowable, Yates caused this matter to be brought to hearing to address the issue of overproduction within the South Dagger Draw-Upper Pennsylvanian Associated Pool.

(16) As soon as is reasonably possible following the issuance of this order the Supervisor of the Division's Artesia District Office should: (a) identify and/or verify all units in both pools that are currently overproduced; (b) prepare a comprehensive list of such units; (c) provide this list to all operators in both pools; and, (d) submit said list to both the Case files and to the Division Director.

(17) Effective immediately any operator within either the North Dagger Draw-Upper Pennsylvanian Pool or South Dagger Draw-Upper Pennsylvanian Associated Pool with units that are in an **overproduced** status should be ordered to restrict total production from said units to a rate not to exceed that amount equivalent to **half** of the unit's assigned allowable of either 350 BOPD and/or 3,500 MCFPD for the North Dagger Draw-Upper Pennsylvanian Pool or 700 BOPD and/or 4,900 MCFPD for the South Dagger Draw-Upper Pennsylvanian Associated Pool.

(18) **Further**, all operators in both pools with such **overproduction** should be ordered to have all affected units brought into balance and any such **overproduced** status eliminated within an 18-month time period that begins August 15, 1996. This should be accomplished by the operator by whatever means available to him even if production rates in those affected units have to be curtailed more than the imposed "half of the unit's assigned allowable" in this 18-month period. **If** overproduction should still exist at the end of this 18-month period the affected unit should be shut-in until such overproduction is made-up. In addition such overproduction should then be labeled as "illegal oil and/or gas" under the terms of any and all applicable Division Rules and Regulations and Laws of New Mexico and the Division should take appropriate action to prosecute such offender(s).

(19) Those operators identified as having overproduced units should henceforth be ordered to report on a monthly basis during this 18-month period to the Supervisor of the Artesia District Office of the Division as to the status of production from all wells within the affected unit(s).

(20) Should it be determined by the Artesia District Supervisor that any unit is no longer in a state of being "overproduced" during this 18-month period, such "half of the affected allowable restricted flow rate" can be canceled and the operator can continue to produce that unit under the appropriate pool rules.

(21) **However**, should it become necessary the Artesia District Supervisor should have the authority to shut-in any unit if the operator fails to submit such production report on that unit.

(22) At the end of this 18-month period this matter should be reopened and a North Dagger Draw-Upper Pennsylvanian Pool/South Dagger Draw-Upper Pennsylvanian Associated Pool Operator's Committee ("Operator's Committee") shall present a cooperative recommendation on:

- (a) the continuation of the current rules, regulations, allowable, and/or GOR limitation for both the North Dagger Draw-Upper Pennsylvanian Pool and South Dagger Draw-Upper Pennsylvanian Associated Pool; or,
- (b) amendments to the special rules and regulations for the North Dagger Draw-Upper Pennsylvanian Pool and/or South Dagger Draw-Upper Pennsylvanian Associated Pool, including allowables and/or GOR limitations.

However, if at such time as this matter is reopened and no cooperative recommendation from the committee is presented, then the current rules, regulations, allowable, and GOR limitation factor applicable to the North Dagger Draw-Upper Pennsylvanian Pool and/or South Dagger Draw-Upper Pennsylvanian Associated Pool will then remain in full force and effect.

(23) The aforementioned "**Committee**" is to include: (a) no more than two representatives from any one operator; (b) a representative from the Division to be appointed by the Supervisor of the Artesia District Office of the Division, which appointment can not be a Hearing Examiner or the Supervisor himself; (c) Mr. William F. Carr of Santa Fe, New Mexico representing Yates as one of its representatives; and, (d) Mr. W. Thomas Kellahin of Santa Fe, New Mexico representing Conoco as one of its representatives. **Further**, this committee is to be chaired equally by Messrs. William F. Carr and W. Thomas Kellahin and the committee is to be in place, named, and a list of its members will be submitted to the Division Director by December 1, 1996. A report of all committee activities is to be submitted to the Division Director on a quarterly basis. All such reports and list of members will be entered as a part of the official record in this matter.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation ("Yates") in Case No. 11525 to amend the "*Special Rules and Regulations for the North Dagger Draw-Upper Pennsylvanian Pool*", as promulgated by said Division Order No. R-4691, as amended, changing the special poolwide depth bracket allowable for a standard 160-acre oil spacing and proration unit in said pool from 700 barrels of oil per day to 4,000 barrels of oil per day, thereby increasing the corresponding maximum gas allowable from the current 7,000 MCF of gas per day for each 160-acre unit to 40,000 MCF of gas per day for each 160-acre unit (GOR of 10,000 to one times the proposed top oil allowable of 4,000 BOPD) and for the cancellation of any and all overproduction cumulated in said pool is hereby **denied**.

(2) The application of Yates in Case No. 11526 to amend the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico*", as promulgated by Division Order No. R-5353, as amended, changing the special poolwide depth bracket oil allowable for a standard 320-acre spacing and proration unit in said pool from 1,400 barrels of oil per day to 8,000 barrels of oil per day, thereby increasing the corresponding maximum gas allowable from the current 9,800 MCF of gas per day for each 320-acre unit to 56,000 MCF of gas per day for each 320-acre unit (GOR of 7,000 to one times the proposed top oil allowable of 8,000 BOPD) and for the cancellation of any and all overproduction cumulated in the pool is hereby **denied**.

(3) Effective immediately any operator within either the North Dagger Draw-Upper Pennsylvanian Pool or South Dagger Draw-Upper Pennsylvanian Associated Pool that have units that are **overproduced** is hereby ordered to restrict total production from said units to a rate not to exceed that amount equivalent to **half** of the units assigned allowable of either 350 BOPD and/or 3,500 MCFPD for the North Dagger Draw-Upper Pennsylvanian Pool or 700 BOPD and/or 4,900 MCFPD for the South Dagger Draw-Upper Pennsylvanian Associated Pool.

(4) As soon as is reasonably possible the Supervisor of the Division's Artesia District Office shall: (a) identify and/or verify all units in both pools that are currently overproduced; (b) prepare a comprehensive list of such units; (c) provide this list to all operators in both pools; and, (d) submit said list to both the Case files and to the Division Director.

(5) All operators in both pools with such **overproduction** are further ordered to have all affected units brought into balance and any such **overproduced** status eliminated within an 18-month time period that begins August 15, 1996. This should be accomplished by the operator by whatever means available to him even if production rates in those affected units have to be curtailed more than the imposed "half of the unit's assigned allowable" in this 18-month period.

HOWEVER, should such overproduction still exist at the end of this 18-month period the affected unit shall be shut-in until such time as the remaining overproduction is made up. In addition such overproduction shall then be labeled as "illegal oil and/or gas" under the terms of any and all applicable Division Rules and Regulations and Laws of New Mexico and the Division shall take appropriate action to prosecute such offender(s).

IT IS FURTHER ORDERED THAT:

(6) Those operators identified as having overproduced units shall henceforth be ordered to report on a monthly basis during this 18-month period to the Supervisor of the Artesia District Office of the Division as to the status of production from all wells within any effected unit(s).

(7) Should it be determined by the Artesia District Supervisor that any unit is no longer in a state of being "overproduced" during this 18-month period, such "half of the unit's assigned allowable" can then be canceled and the operator can continue to produce that unit under the appropriate pool rules.

HOWEVER, should it become necessary, the Artesia District Supervisor shall have the authority to shut-in any unit if the operator fails to submit such production reports.

(8) At the last Examiner Hearing scheduled for January, 1998, both Case Nos. 11525 and 11526 shall be reopened and a North Dagger Draw-Upper Pennsylvanian Pool/South Dagger Draw-Upper Pennsylvanian Associated Pool Operator's Committee ("Operator's Committee") shall present a cooperative recommendation on:

(a) the continuation of the current rules, regulations, allowable, and/or GOR limitation for both the North Dagger Draw-Upper Pennsylvanian Pool and South Dagger Draw-Upper Pennsylvanian Associated Pool; or,

(b) amendments to the special rules and regulations for the North Dagger Draw-Upper Pennsylvanian Pool and/or South Dagger Draw-Upper Pennsylvanian Associated Pool, including allowables and/or GOR limitations.

HOWEVER, if at such time as this matter is reopened and no cooperative recommendation from the committee is presented then the current rules, regulations, allowable, and GOR limitation factor applicable to the North Dagger Draw-Upper Pennsylvanian Pool and/or South Dagger Draw-Upper Pennsylvanian Associated Pool shall remain in full force and effect.

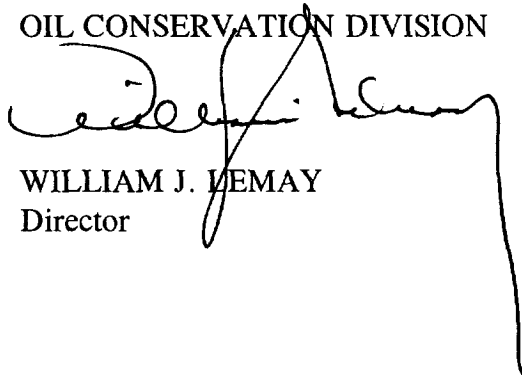
(9) The aforementioned "**Committee**" is to include: (a) no more than two representatives from any one operator; (b) a representative from the Division to be appointed by the Supervisor of the Artesia District Office of the Division, which appointment can not be a Hearing Examiner or the Supervisor himself; (c) Mr. William F. Carr of Santa Fe, New Mexico representing Yates as one of its representatives; and,

(d) Mr. W. Thomas Kellahin of Santa Fe, New Mexico representing Conoco as one of its representatives. FURTHER, this committee is to be chaired equally by Messrs. William F. Carr and W. Thomas Kellahin and the committee is to be in place, named, and a list of its members will be submitted to the Division Director by December 1, 1996. A report of all committee activities shall be submitted to the Division Director on a quarterly basis. All such reports and list of members will be entered as a part of the official record in this matter.

(10) 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



WILLIAM J. LEMAY
Director

S E A L