

**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. 12540
ORDER NO. R-11526**

**APPLICATION OF PENWELL ENERGY, INC. FOR SPECIAL POOL RULES
FOR THE ARENA BLANCA-ENTRADA OIL POOL, MCKINLEY COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 16, 2000, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 31st day of January, 2001, 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, Penwell Energy, Inc. ("Penwell") seeks the promulgation of special pool rules for the Arena Blanca-Entrada Oil Pool to include provisions for 160-acre spacing and proration units with wells to be located no closer than 660 feet to any boundary of a proration unit.

(3) The Arena Blanca-Entrada Oil Pool was created by Division Order No. 8120, issued in Case No. 8772 and dated January 10, 1986, and currently includes the following acreage within the Entrada formation:

Township 20 North, Range 5 West, NMPM
Section 36: S/2 NE/4, N/2 SE/4.

(4) The Arena Blanca-Entrada Oil Pool is currently governed by statewide rules that provide for 40-acre spacing and proration units with wells to be located no closer than 330 feet to any boundary of a proration unit.

(5) There are currently no wells producing from the Arena Blanca-Entrada Oil Pool.

(6) Penwell proposes to drill its Torreon Wash "36" Well No. 1 at an unorthodox well location 2143 feet from the South line and 1223 feet from the East line (Unit I) of Section 36, Township 20 North, Range 5 West, NMPM, McKinley County, New Mexico to a sufficient depth to test the Entrada formation. The unorthodox location was approved by Division Administrative Order NSL-2053-A dated October 18, 2000.

(7) The NE/4 SE/4 of Section 36 is to be dedicated to the subject well in order to form a standard 40-acre oil spacing and proration unit within the Arena Blanca-Entrada Oil Pool.

(8) Penwell presented evidence demonstrating that:

(a) the Torreon Wash "36" Well No. 1 is located on an isolated sand dune structure within the Entrada formation;

(b) one well is capable of effectively and economically draining the entire reservoir, and no other wells will need to be drilled;

(c) the isolated sand dune structure is located such that a 160-acre non-standard spacing and proration unit will be required to effectively and economically drain the entire reservoir;

(d) wells completed in the Entrada formation typically produce such large quantities of water that producing a well at an allowable rate based on 40-acre spacing would be uneconomic;

(e) all of Section 36 comprises a single State lease (Lease No. VA-1683) that is leased by Penwell; and

(f) all offsetting acreage is leased by Penwell.

(9) Division records indicate there are several Entrada pools currently spaced on 160 acres within this general area, namely the Southeast Arena Blanca-Entrada, Papers Wash-Entrada, and Eagle Mesa-Entrada Pools.

(10) No party appeared at the hearing or objected to the application.

(11) To prevent waste and protect correlative rights, temporary special pool rules providing for 160-acre spacing and proration units should be issued for the subject pool.

(12) The temporary special pool rules should provide for designated well locations no closer than 660 feet to any outer boundary of a proration unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

(13) Pursuant to Division Rules No. 505.A. and 506.A., the subject pool should be assigned a depth bracket allowable of 382 barrels of oil per day at a limiting gas-oil ratio of 2,000 cubic feet of gas per barrel of oil.

(14) This case should be reopened at an examiner hearing in January, 2002, at which time the operators in the subject pool should be prepared to appear and show cause why the temporary special rules for the Arena Blanca-Entrada Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Penwell Energy, Inc., the temporary special pool rules for the Arena Blanca-Entrada Pool are hereby adopted as follows:

**TEMPORARY SPECIAL POOL RULES FOR THE
ARENA BLANCA-ENTRADA POOL**

RULE 1. Each well completed in or recompleted in the Arena Blanca-Entrada Pool or in the Entrada formation within two miles thereof, and not nearer to or within the limits of another designated Entrada pool, shall be spaced, drilled, operated and produced in accordance with these rules.

RULE 2. Each well completed or recompleted in the Arena Blanca-Entrada Pool shall be located on a unit containing 160 acres, more or less, which consists of the NE/4, SE/4, SW/4 or NW/4 of a single governmental section.

RULE 3. The Director may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified

mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 20 days after the Director has received the application.

RULE 4. Each well shall be located no closer than 660 feet to any outer boundary of a proration unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard 160-acre oil proration unit shall be based on a depth bracket allowable of 382 BOPD with a limiting GOR of 2000 cubic feet of gas per barrel of oil. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

IT IS FURTHER ORDERED THAT:

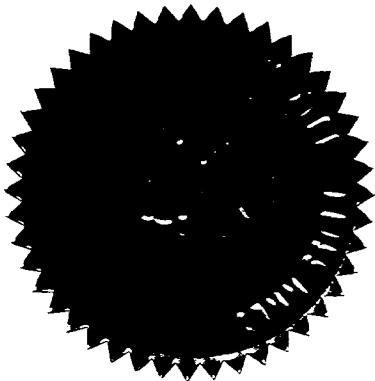
(2) The location of all wells presently drilling to or completed in Arena Blanca-Entrada Pool or in the Entrada formation within two miles thereof, and not nearer to or within the limits of another designated Entrada pool, are hereby approved. The operator of any well having an unorthodox location shall notify the Division's Aztec District Office in writing of the name and location of the well within 30 days from the date of this order.

(3) Pursuant to Paragraph A of Section 70-2-18, NMSA 1978, existing oil wells in the Arena Blanca-Entrada Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of Section 70-2-18, existing wells may have non-standard spacing and proration units established by the Division and dedicated thereto. Failure to file a new Form C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable.

(4) This case shall be reopened at an examiner hearing in January, 2002, at which time the operators in the Arena Blanca-Entrada Pool shall appear and show cause why the temporary special rules for the pool set forth herein should not be rescinded.

(5) 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
LORI WROTENBERY
Director

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