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AMEND NSL 9/5/00

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August 11, 2000

AUG 14 2000

Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Request to amend Division Administrative Order NSL-4386(SD)

Lots 1-4, S $\frac{1}{2}$ N $\frac{1}{2}$, and S $\frac{1}{2}$ of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, containing 674.28 acres

Operator: Kerr-McGee Oil & Gas Onshore LLC ("Kerr-McGee")

Indian Basin-Upper Pennsylvanian Gas Pool

Dear Mr. Stogner:

By Order No. R-10359 (copy enclosed), the Division granted Oryx Energy Company (now Kerr-McGee) approval to drill the Conoco State Well No. 2 at an unorthodox infill gas well location 800 feet from the south and west lines of Section 2. The unit was simultaneously dedicated to the Conoco State Well Nos. 1 and 2. The order imposed a production penalty of 38% (for an acreage factor of 0.62).

By Administrative Order NSL-4386(SD) (copy enclosed), the Division granted Kerr-McGee approval to drill its Conoco State Well No. 6 at an unorthodox infill gas well location 2250 feet from the north line and 1500 feet from the east line of Section 2. The unit was simultaneously dedicated to the Conoco State Well Nos. 1, 2, and 6. The order retained the production penalty imposed by Order No. R-10359, because at that time the No. 2 well was still producing.

Due to recent field development, a better understanding of the nature and mechanics of water encroachment has evolved. Therefore, Kerr-McGee plans to temporarily abandon the Conoco State Well No. 2,¹ and has drilled the Conoco State Well No. 7 at an orthodox gas well location 1706 feet from the north line and 1828 feet from the west line of Section 2. (Enclosed is a Form C-102 marking all well locations.) Since the No. 2 well will no longer be producing, and because that well was the reason for the production penalty, Kerr-McGee requests that Order NSL-4386(SD) be amended to eliminate the penalty provision.² Kerr-McGee also requests that Order NSL-4386(SD) be amended to provide for simultaneous dedication of the well unit to the Conoco State Well Nos. 6 and 7. (The Conoco State Well No. 1 was plugged and abandoned prior to the drilling of the No. 7 well.)

Please call if you have any questions.

Very truly yours,

A handwritten signature in cursive script that reads "James Bruce".

James Bruce

Attorney for Kerr-McGee
Oil & Gas Onshore LLC

¹The No. 2 well may be deepened to the Devonian formation, and turned into a salt water disposal well.

²Although the No. 6 well is at an unorthodox location, the offset operator to that well (Yates Petroleum Corporation) waived objection to the location. See Exhibit C attached to the unorthodox location application filed for the No. 6 well.

**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. 11189
ORDER NO. R-10359**

**APPLICATION OF ORYX ENERGY COMPANY FOR AN UNORTHODOX
INFILL GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 19, 1995 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of May, 1995 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) The applicant, Oryx Energy Company ("ORYX"), seeks approval to drill its Conoco State Well No. 2 at an unorthodox infill gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool 800 feet from the South and West lines (Unit M) of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico. Said well is to be simultaneously dedicated to an existing 654.28-acre gas spacing and proration unit comprising all of said irregular Section 2, which is presently dedicated to its Conoco State Gas Com Well No. 1 (API No. 30-015-10619) located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of said Section 2.

(3) All of said Section 2 is located within the Indian Basin-Upper Pennsylvanian (Prorated) Gas Pool and is therefore subject to the "*General Rules and Regulations For The Prorated Gas Pools of New Mexico/Special Rules and Regulations For The Indian Basin-Upper Pennsylvanian Gas Pool*", as promulgated by Division Order No. R-8170, as amended, which require standard 640-acre proration units with wells to be located no closer than 1650 feet from the outer boundary of the section nor closer than 330 feet from any internal governmental quarter-quarter section line or subdivision inner boundary.

(4) ORYX presented geologic and reservoir engineer data which demonstrates that:

(a) water encroachment is adversely affecting production from its existing well in Section 2, the Conoco State Well No. 1 located 1775 feet from the North line and 1980 feet from the West line (Unit F);

(b) the proposed Conoco State Well No. 2 ultimately will be a "replacement" well and will be drilled at an unorthodox gas well location in order to gain sufficient structural position in its proration/spacing unit to attempt to recover any remaining recoverable gas reserves underlying said Section 2 and thereby protect correlative rights; and

(c) the proposed well is immediately needed to protect this proration/spacing unit from further offset drainage occurring from the southwest.

(5) Oryx proposes at this time that it be authorized to:

(a) drill its Conoco State Well No. 2 at an unorthodox gas well location 800 feet from the south and west lines of Section 2;

(b) until such time as the Conoco State Well No. 1 has "watered out", Oryx seeks approval to drill, operate and produce the gas allowable assigned to this spacing unit from either or both of these two wells in any combination. Once the Conoco State Well No. 1 is completely watered out, then Oryx seeks approval to produce the spacing and

proration unit's gas allowable from the Conoco State Well No. 2; and

(c) that the entire spacing unit be subject to an acreage factor of 0.62 (being a 38% penalty).

(6) Chevron USA Inc. ("Chevron"), an offset operator to the west and southwest, appeared at the hearing and recommended a production penalty be assessed against the proposed Conoco State Well No. 2.

(7) Because gas allowables in the Indian Basin-Upper Pennsylvanian Gas Pool are established on a 640-acre spacing unit basis and not on an individual well basis, it is not possible under the Division's rules and regulations to implement and monitor an effective penalty against the production from a single well within a multiple well spacing unit.

(8) At the hearing, both ORYX and Chevron agreed that in this case it would be appropriate to apply the penalty formula commonly utilized in this pool against the spacing unit allowable so that the total penalized allowable may be produced from either or both wells in the spacing unit in any combination.

(9) MW Petroleum Corporation/Apache Corporation ("Apache"), offset operators to the north and south of said Section 2, submitted a written letter objecting to the proposed simultaneous dedication and requested that the Division require ORYX to abandon its Conoco State Well No. 1 before it commenced producing its Conoco State Well No. 2 citing as its reason Division Case 10423, in which Order No. R-9619 was issued.

(10) A review of the record in said Case 10423 demonstrates that Apache advised the Division that it voluntarily intended to plug and abandon its first well on the spacing unit before commencing production of the unorthodox well and was not required to do so by either the Division or requested to do so by any offset operator.

(11) The fact that Apache failed to propose a penalty against its entire spacing unit allowable which would have then allowed simultaneous production of its wells should not preclude the Division from granting that solution to another operator.

(12) 62% of a full unpenalized allowable based upon the following penalty is consistent with the method used in penalizing other unorthodox well locations and should be applied in this case:

(a) productive acreage factor for Section 2:
487 acres of 640 acre = 76% of allowable; and

(b) Ratio of Distance factor:
800 feet / 1650 feet = 48% of allowable

76 + 48 divided by 2 = 62%.

(13) The above penalty will provide a reasonable restriction to protect correlative rights of offsetting operators but is sufficient to afford the applicant the opportunity to protect its correlative right to recover its share of remaining recoverable gas underlying its spacing unit before that gas is swept from its unit.

(14) Approval of the application will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject 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 applicant, Oryx Energy Company ("Oryx"), is hereby authorized to drill its Conoco State Well No. 2 at an unorthodox infill gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool 800 feet from the South and West lines (Unit M) of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

(2) Said well is to be simultaneously dedicated to an existing 654.28-acre gas spacing and proration unit comprising all of said irregular Section 2, which is presently dedicated to its Conoco State Gas Com Well No. 1 (API No. 30-015-10619) located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of said Section 2.

PROVIDED HOWEVER THAT:

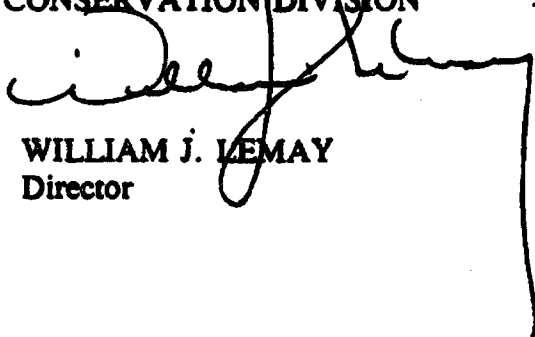
(3) Said proration/spacing unit shall be assigned, for gas allowable purposes, an acreage factor of 0.62 in the Indian Basin-Upper Pennsylvanian Gas Pool.

Case No. 11189
Order No. R-10359
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(4) 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

SEAL



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

January 11, 2000

Kerr-McGee Oil & Gas Onshore, L.L.C.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Telefax No. (505) 982-2151

Administrative Order NSL-4386(SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your initial application dated December 22, 1999 on behalf of the operator Kerr-McGee Oil & Gas Onshore, L.L.C. ("Kerr-McGee"); (ii) a copy of Kerr-McGee's notification letter dated December 22, 1999 to Yates Petroleum Corporation; (iii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe, including the file in Case No. 11189; and (iv) your letter dated December 28, 1999 with supplemental data: all concerning Kerr-McGee's request for a second infill gas well to be drilled at an unorthodox gas well location within an existing 674.28-acre gas spacing and proration unit ("GPU") comprising all of irregular Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

The Division Director Finds That:

(1) Kerr-McGee is proposing to drill its Conoco State (Gas Com.) Well No. 6 at a location that is 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico;

(2) The Indian Basin-Upper Pennsylvanian Gas Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

Section 3:	W/2
Section 4:	All
Sections 8 and 9:	All
Section 10:	W/2
Section 15:	W/2
Sections 16 through 30:	All
Sections 32 through 35:	All
Section 36:	W/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 19: All

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

Section 1: W/2

Sections 2 through 5: All

Sections 8 through 11: All

Section 12: W/2

Section 13: W/2

Sections 14 through 17: All

Section 21: N/2

Section 22: All;

(3) The Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool currently governed by the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*," as promulgated by Division Order No. R-8170, as amended, which require standard 640-acre GPU's with wells to be located no closer than 1650 feet from the outer boundary of the GPU nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary;

(4) All of Section 2 is currently simultaneously dedicated to Kerr-McGee's: (i) Conoco State Gas Com. Well No. 1 (API No. 30-015-10619), located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of Section 2; and (ii) Conoco State Gas Com. Well No. 2 (API No. 30-015-28510), located at an unorthodox gas well location 800 feet from the South and West lines (Unit M) of Section 2;

(5) By Order No. R-10359, issued in Case No. 11189 dated May 2, 1995, the Division authorized: (i) the drilling of the above-described Conoco State Gas Com. Well No. 2 at an unorthodox gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool; and (ii) officially assigned this GPU an acreage factor of 0.62 for gas prorationing purposes, which assesses a 38% production penalty on Indian Basin-Upper Pennsylvanian Gas Pool production from this GPU; and

(6) The subject application for Kerr-McGee's proposed Conoco State Well No. 6 has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Rule 2 (d) of the Indian Basin-Upper Pennsylvanian Gas Pool special rules and Division Rule 104.F (2), Kerr-McGee Oil & Gas

Onshore, L.L.C. ("Kerr-McGee") is hereby authorized to drill its proposed Conoco State (Gas Com.) Well No. 6 at an unorthodox second-infill gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

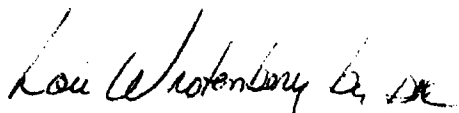
(2) The existing 674.28-acre gas spacing and proration unit ("GPU") within the Indian Basin-Upper Pennsylvanian Gas Pool that comprises all of irregular Section 2 is to be simultaneously dedicated to Kerr-McGee's: (i) existing Conoco State Gas Com. Well No. 1 (API No. 30-015-10619), located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of Section 2; (ii) existing Conoco State Gas Com. Well No. 2 (API No. 30-015-28510), located at an unorthodox gas well location (approved by Division Order No. R-10359, issued in Case No. 11189 dated May 2, 1995) 800 feet from the South and West lines (Unit M) of Section 2; and (iii) proposed Conoco State (Gas Com.) Well No. 6, as described above.

It Is Further Ordered That:

(3) As prescribed in Division Order No. R-10359, Kerr-McGee is hereby permitted to produce the allowable assigned the subject GPU from all three wells in any proportion; **provided however**, total combined gas production from these three wells shall not exceed that volume assigned this GPU with its assessed acreage factor of 0.62.

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

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
W. Thomas Kellahin, Counsel for Marathon Oil Company - Santa Fe
File: Case No. 11189

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DISTRICT I

P.O. Box 1980, Bernalillo, NM 87001-1980

DISTRICT II

P.O. Drawer 88, Artesia, NM 88211-0718

DISTRICT III

1000 Rio Grande Rd., Artesia, NM 87410

DISTRICT IV

P.O. BOX 2000, SANTA FE, N.M. 87504-2000

State of New Mexico

Energy, Minerals and Natural Resources Department

Form C-102

Revised February 10, 1994

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

310.715 m.c.m

O AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-015-20875	Pool Code	Pool Name
Property Code 24515	Property Name CONOCO STATE	Well Number 7
OGRID No. 12558	Operator Name KERR-McGEE CORPORATION	Elevation 3972

Surface Location

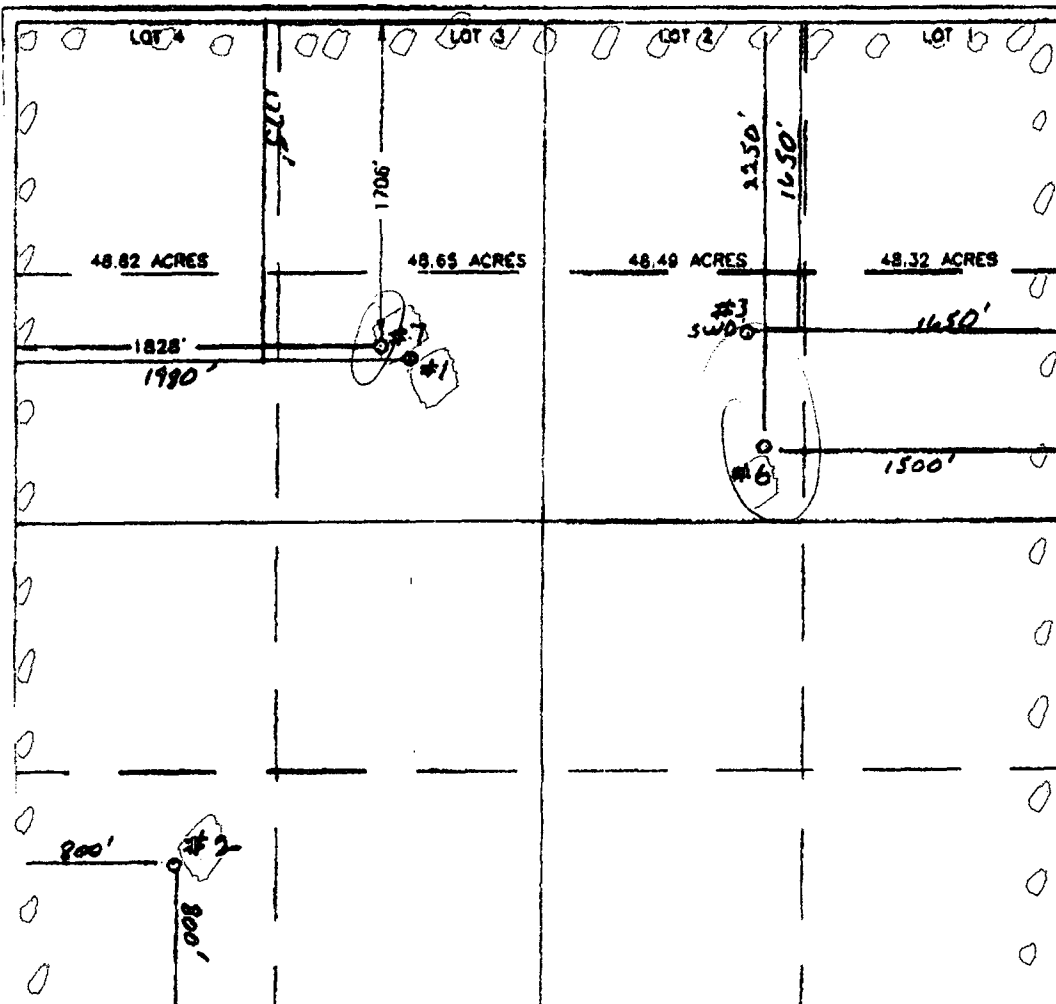
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
F	2	22 S	23 E		1706	NORTH	1828	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
674.28			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Stephen Fore
Signature

Stephen Fore
Printed Name

Technical Analyst
Title

04-24-00
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

APRIL 14, 2000

Date **APR 14, 2000** DC

Ronald E. EIDSON
Signature of Surveyor
Professional Engineer
Ronald E. EIDSON
4/17/00
00-11-0420

Certification No. **RONALD E. EIDSON 3238**
RONALD E. EIDSON 12041
RONALD E. EIDSON 12185

16:24 0000-07-2000

P.02/02