

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:

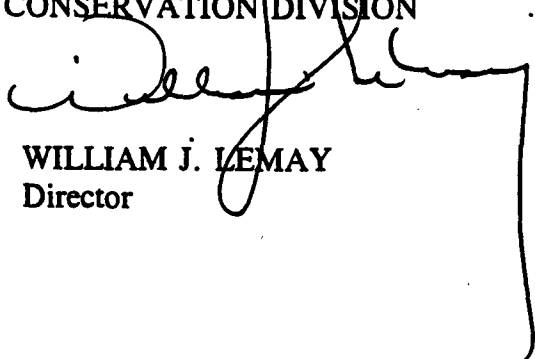
(3) Said proration/spacing unit shall be assigned, for gas allowable purposes, an acreage factor of 0.62 in the Indian Basin-Upper Pennsylvanian Gas Pool.

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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

A handwritten signature in dark ink, appearing to read 'William J. Lemay', is written over the typed name and extends downwards with a long vertical line.

WILLIAM J. LEMAY
Director

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