

**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. 13469
ORDER NO. R-12351**

**APPLICATION OF MYCO INDUSTRIES, INC. FOR AN EXCEPTION TO
DIVISION RULES NO. 104.C.(2)(b) AND (c), EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 5, 2005, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 11th day of May, 2005, 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, Myco Industries, Inc. ("Myco" or "applicant"), seeks an exception to Division Rule No. 104.C.(2)(c) to allow two operators in all formations developed on 320 acres within an existing 320-acre spacing and proration unit comprising the N/2 of Section 35, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, which presently include, but are not necessarily limited to the East Carlsbad-Wolfcamp and East Carlsbad-Morrow Gas Pools. This unit will be simultaneously dedicated to the existing Delta Petroleum Corporation ("Delta") Reeves Federal Well No. 1 (API No. 30-015-21257) located at a standard gas well location 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 35, and to the Myco Boise Federal Well No. 1 (API No. 30-015-33735) located at a standard gas well location 1877 feet from the North line and 1312 feet from the East line (Unit H) of Section 35.

(3) The applicant also seeks an exception to Division Rule No. 104.C.(2)(b) to allow both the Reeves Federal Well No. 1 and the Boise Federal Well No. 1, which are located within the same quarter section, to be produced simultaneously.

(4) Division Rule No. 104.C.(2) provides that in Southeast New Mexico, an initial and infill well may be drilled on a standard gas spacing and proration unit comprising 320 acres provided that: (i) the initial and infill well shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; (ii) the infill well shall be located within the quarter section not containing the initial well; and (iii) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(5) Myco testified that the Boise Federal Well No. 1, which is located 1877 feet from the North line and 1312 feet from the East line of Section 35, is in compliance with the setback requirements of Division Rule No. 104.C.(2) because Section 35 is an irregular and oversized section. The well is actually located 23 feet from the quarter-quarter section line.

(6) Division records show that the Reeves Federal Well No. 1 was drilled in 1974 by Champlin Petroleum Company. The well produced from the East Carlsbad-Morrow Gas Pool for approximately two (2) years, and was subsequently plugged back and completed in the East Carlsbad-Wolfcamp Gas Pool. Division records and the evidence presented by Myco demonstrates that:

- (a) Delta assumed operatorship of the Reeves Federal Well No. 1 effective November 1, 1999;
- (b) the well has produced from the East Carlsbad-Wolfcamp Gas Pool from 1976 to the present time. The well has cumulatively produced approximately 38,282 barrels of oil and 409 MMCF of gas from the Wolfcamp formation;
- (c) the well has not produced since September, 2004. At that time, the well was producing at a rate of approximately 2.5 barrels of oil and 37 MCF of gas per day; and

- (d) Myco does not know what Delta plans to do with the Reeves Federal Well No. 1.

(7) Division records also show that there is an additional well within the N/2 of Section 35, the Delta Reeves Federal Well No. 2 (API No. 30-015-22330) located 660 feet from the North line and 1980 feet from the West line (Unit C). This well is currently completed in and producing from the East Carlsbad-Morrow Gas Pool.

- (8) Myco presented evidence that demonstrates that:

- (a) Myco has obtained from Delta a farmout agreement that grants to Myco the operating rights to the N/2 of Section 35, save and except the Reeves Federal Wells No. 1 and 2; and
- (b) as a result of the farmout agreement, the Reeves Federal Wells No. 1 and 2 are owned by Delta and a company named BWAB. The Boise Federal Well No. 1 will be owned 31.25% by Delta, and 68.75% by Myco. As a result of an additional farmout agreement between BWAB and Myco, BWAB will retain an overriding royalty interest in the Boise Federal Well No. 1.

- (9) Myco presented further evidence that demonstrates that:

- (a) the Boise Federal Well No. 1 was drilled by Myco in December 2004 as a East Carlsbad-Morrow Gas Pool test. The well was drilled to a depth of approximately 12,000 feet and subsequently tested at non-commercial rates in both the Morrow and Strawn formations;
- (b) Myco plans to complete the Wolfcamp formation in the Boise Federal Well No. 1;

- (c) the Wolfcamp formation within the NE/4 of Section 35 is characterized by low porosity and low permeability. The Reeves Federal Well No. 1 will ultimately recover approximately 32% of the recoverable gas reserves attributable to the NE/4 of Section 35 in the Wolfcamp formation. The ultimate recovery of this well corresponds to a drainage area of approximately 60 acres; and
- (d) Myco estimates that the Boise Federal Well No. 1 will ultimately recover approximately .4 BCF of gas and 20,000 barrels of oil from the Wolfcamp formation that will otherwise not be recovered by the existing Reeves Federal Well No. 1, thereby preventing waste.

(10) With regards to the exception to Division Rule No. 104.C.(2)(b), Myco notified all affected offset operators, including Mewbourne Oil Company, Delta, Western Oil Producers, Inc. and Oxy U.S.A. WTP, L.P. No offset operator appeared at the hearing in opposition to the well location exception.

(11) Pursuant to the farmout agreements, Delta and BWAB are aware of the proposal by Myco. Neither Delta nor BWAB appeared at the hearing in opposition to the application.

(12) Approval of the application will enable Myco to produce additional oil and gas reserves from the East Carlsbad-Wolfcamp Gas Pool underlying the N/2 of Section 35 that may otherwise not be recovered, thereby preventing waste, and will not violate correlative rights.

(13) Production from the Boise Federal Well No. 1 should be processed, metered and stored separately from the production from the Reeves Federal Wells No. 1 and 2.

(14) Pursuant to the requirements of Division Rule No. 104.C.(2)(b), no more than two (2) wells should be permitted in the East Carlsbad-Wolfcamp Gas Pool within the N/2 of Section 35. Any request to drill an additional well to produce from this horizon should be considered only after notice and hearing.

(15) Prior to commencing production from the Boise Federal Well No. 1, Myco should consult with the United States Bureau of Land Management (USBLM) to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of that agency.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Myco Industries, Inc., is hereby granted an exception to Division Rule No. 104.C.(2)(c) to allow two operators in all formations developed on 320 acres within an existing 320-acre spacing and proration unit comprising the N/2 of Section 35, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico, which presently include, but are not necessarily limited to the East Carlsbad-Wolfcamp and East Carlsbad-Morrow Gas Pools. This unit shall be simultaneously dedicated to the existing Delta Petroleum Corporation Reeves Federal Well No. 1 (API No. 30-015-21257) located at a standard gas well location 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 35, and to the Myco Industries, Inc. Boise Federal Well No. 1 (API No. 30-015-33735) located at a standard gas well location 1877 feet from the North line and 1312 feet from the East line (Unit H) of Section 35.

(2) The applicant is also granted an exception to Division Rule No. 104.C.(2)(b) to allow both the Reeves Federal Well No. 1 and the Boise Federal Well No. 1 to be produced in the same quarter section from the East Carlsbad-Wolfcamp Gas Pool.

(3) Prior to commencing production from the Boise Federal Well No. 1, Myco Industries, Inc. shall consult with the United States Bureau of Land Management (USBLM) to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of that agency.

(4) Production from the Boise Federal Well No. 1 shall be processed, metered and stored separately from the production from the Reeves Federal Wells No. 1 and 2.

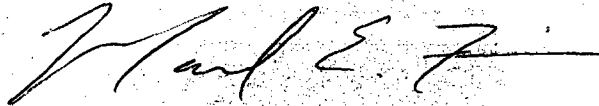
(5) Pursuant to the requirements of Division Rule No. 104.C.(2)(b), no more than two (2) wells shall be permitted in the East Carlsbad-Wolfcamp Gas Pool within the N/2 of Section 35. Any request to drill an additional well to produce from this horizon shall be considered only after notice and hearing.

(6) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

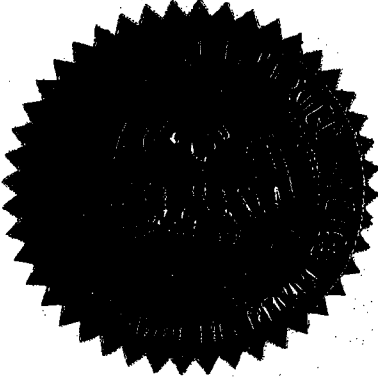
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, P.E.
Director



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