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June 16, 2004

RECEIVED

JUN 28 2004

**OIL CONSERVATION
DIVISION**

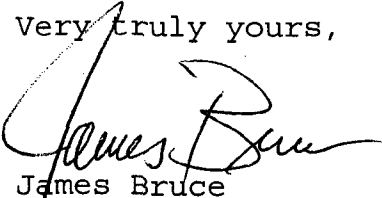
Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case Nos. 13274 & 13275/Arch Petroleum Inc. and Westbrook
Oil Corporation

Dear Mr. Stogner:

My proposed order in the above matters contained several typos. Enclosed is a copy of the order I submitted on applicants' behalf, highlighting the matters which need to be corrected.

Very truly yours,



James Bruce

Attorney for Arch Petroleum Inc.

cc: J.E. Gallegos w/encl.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARINGS CALLED
BY THE OIL CONSERVATION DIVISION
FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF ARCH PETROLEUM INC.
AND WESTBROOK OIL CORPORATION FOR
APPROVAL OF TWO NON-STANDARD GAS
SPACING AND PRORATION UNITS IN THE
JALMAT GAS POOL, LEA COUNTY, NEW MEXICO.

Case No. 13274

APPLICATION OF ARCH PETROLEUM INC.
FOR APPROVAL OF A NON-STANDARD GAS
SPACING AND PRORATION UNIT IN THE
JALMAT GAS POOL, LEA COUNTY, NEW MEXICO.

Case No. 13275

Order No. R-

ORDER OF THE DIVISION

(Proposed by Applicants)

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on May 27, 2004 at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this _____ day of June, 2004, 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 these cases and of their subject matter.

(2) The applicants in Case No. ¹³²⁷⁴~~12374~~, Arch Petroleum Inc. ("Arch") and Westbrook Oil Corporation ("Westbrook"), seek an order approving (i) a non-standard gas spacing and proration unit comprised of the SW $\frac{1}{4}$ of Section 20, Township 23 South, Range 37 East, NMPM, to be dedicated in the Jalmat Gas Pool to the Steeler "A" Well No. 1, located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of the section, and (ii) a non-standard gas spacing and proration unit comprised of the SE $\frac{1}{4}$ of Section 20 in said township and range, to be dedicated in the Jalmat Gas Pool to the Resler "B" Well No. 1, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of the section.

(3) The applicant in Case No. ¹³²⁷⁵~~12375~~, Arch, seeks an order approving a non-standard gas spacing and proration unit in the Jalmat Gas Pool comprised of the NW $\frac{1}{4}$ of Section 21, Township 23 South, Range 37 East, NMPM, to be dedicated to the C.E. Lamunyon

Well No. 2, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of the section.

(4) Fulfer Oil & Cattle, LLC ("Fulfer"), an offset operator, appeared at the hearing in opposition to the applications.

(5) The Special Pool Rules for the Jalmat Gas Pool (Division Order No. R-8170-P) provide for standard 640 acre gas well units, one gas well per quarter section, and gas wells to be located no closer than 660 feet to a quarter section line nor closer than 330 feet to a quarter-quarter section line or subdivision inner boundary. Non-standard gas well units comprised of one or more complete quarter sections are allowed after notice to offsets. The Jalmat Gas Pool in this area covers the interval from the top of the Tansill formation to a point 100 feet above the base of the Yates formation.

Seven Rivers

(6) The land testimony presented at hearing, and the records of the Division, show the following:

- (a) Westbrook is operator in the Jalmat Gas Pool of a non-standard 320 acre unit comprised of the S $\frac{1}{2}$ of Section 20, currently dedicated to the Steeler "A" Well No. 1, which was drilled in 1958. NSP 351. Westbrook owns no working interest in the well unit, and is the contract operator.
- (b) In Case No. 13274, Westbrook and Arch propose to split the S $\frac{1}{2}$ of Section 20 into (i) a non-standard Jalmat gas well unit comprised of the SW $\frac{1}{4}$ of Section 20, to be dedicated to the Steeler "A" Well No. 1, to be operated by Westbrook, and (ii) a non-standard Jalmat gas well unit comprised of the SE $\frac{1}{4}$ of Section 20, to be dedicated to the Resler "B" Well No. 1, to be operated by Arch. The Resler "B" Well No. 1 has been drilled to but not completed in the Jalmat Gas Pool.
- (c) Royalty interest ownership is common throughout the S $\frac{1}{2}$ of Section 20, and thus the royalty owners will be unaffected by splitting the S $\frac{1}{2}$ of Section 20 into two well units.
- (d) Arch acquired working interests in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ and SE $\frac{1}{4}$ of Section 20, and pursuant thereto has drilled (in addition to the Resler "B" Well No. 1) the following wells:
 - (i) Resler "A" Well No. 1, located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$;
 - (ii) Resler "B" Well No. 2, located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$;
 - and

(iii) Resler "B" Well No. 3, located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$.

The above three wells are completed in and producing from the Langlie-Mattix Pool, which is spaced on 40 acres under Division regulations.

- (e) In Case No. 13275, Arch seeks approval for a non-standard Jalmat gas well unit comprised of the NW $\frac{1}{4}$ of Section 21, to be dedicated to the existing C.E. Lamunyon Well No. 2, operated by Arch, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of the section. The C.E. Lamunyon Well No. 2 was drilled in 1959 and is currently completed in a deeper formation. It has not been completed in the Jalmat Gas Pool.
- (f) Both working and royalty interest owners will benefit from the additional production from the wells drilled or to be re-completed by Arch.
- (g) Fulfer is operator of the following Jalmat Gas Pool well units:
 - (i) the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 20, dedicated in the Jalmat Gas Pool to the J.C. Johnson Well No. 5. NSP 1556; and
 - (ii) the NE $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, and S $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 20, dedicated in the Jalmat Gas Pool to the J.C. Johnson Well Nos. 3 and 4, located in Unit Letters D and H, respectively. NSP 559.
- (7) The geologic and engineering evidence presented at hearing shows the following:
 - (a) The Resler "B" Lease and the C.E. Lamunyon Lease lie on the eastern fringe of the Jalmat Gas Pool, and have been largely untested in the Jalmat. Although numerous wells were drilled to deeper zones over the years, wells to the east of Section 20 did not have mud logs, and thus the potential of the wells in the Jalmat Gas Pool was unknown until recent drilling and recompletion activity by Arch in the N $\frac{1}{2}$ of Section 28.
 - (b) As you move updip from west to east, the reservoir deteriorates in quality: The reservoir changes from sand to dolomite, and porosity decreases from 12-20% to 6-12%.
 - (c) Pressures in the Jalmat Gas Pool wells in the N $\frac{1}{2}$ of Section 28 are 800 psi, versus 200-300 psi in Sections 19 and 30 to the west, showing that the Resler "B" Lease and

C.E. Lamunyon Lease remain undrained.

- (d) Due to the deterioration of reservoir quality to the east, additional wells are needed in the Jalmat Gas Pool to adequately produce reserves and protect the correlative rights of the interest owners.
- (e) Arch has succeeded in extending production from the Jalmat Gas Pool east of its current extent.
- (8) Fulfer contends that the Resler "A" Well No. 1, Resler "B" Well No. 2, and Resler "B" Well No. 3 are partially completed in the Jalmat Gas Pool, and not in the Langlie-Mattix Pool. The evidence shows that:
 - (a) All three wells are oil wells, with gas:oil ratios of less than 5000:1, which is consistent with Langlie-Mattix Pool production.
 - (b) The Jalmat Gas Pool in this area produces little oil.
 - (c) Arch presented a detailed cross-section which shows that the upper perforations in all three wells are less than 100 feet above the base of the ~~Yates~~ *Seven Rivers* formation, and thus are in the Langlie-Mattix Pool.
 - (d) Fulfer's witness admitted that the lower perforations in all three wells are in the Langlie-Mattix Pool.

Arch stated that if the Division determined that the upper perforations in the three wells were in the Jalmat Gas Pool, the upper perforations would be squeezed so as to comply with Division regulations. The Division determines that all three wells are Langlie-Mattix Pool producers.

(9) Fulfer has recently recompleted the J.C. Johnson Well No. 3, located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 20, in the Jalmat Gas Pool. Fulfer provided no data on the well to the Division. Fulfer has three Jalmat wells in the N $\frac{1}{2}$ of Section 20, but objects to any additional offset Jalmat Gas Pool wells.

(10) Completing and producing the Resler "B" Well No. 1 and C.E. Lamunyon Well No. 2 in the Jalmat Gas Pool is necessary in order to prevent waste and protect the correlative rights of the interest owners in the proposed well units.

(11) Both applications should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Arch Petroleum Inc. and Westbrook Oil Corporation in Case No. 13274, seeking (i) a non-standard gas spacing and proration unit comprised of the SW $\frac{1}{4}$ of Section 20, Township 23 South, Range 37 East, NMPM, to be dedicated in the Jalmat Gas Pool to the Steeler "A" Well No. 1, located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of the section, and (ii) a non-standard gas spacing and proration unit comprised of the SE $\frac{1}{4}$ of Section 20 in said township and range, to be dedicated in the Jalmat Gas Pool to the Resler "B" Well No. 1, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of the section, is hereby approved. The SW $\frac{1}{4}$ of Section 20 shall be operated by Westbrook Oil Corporation, and the SE $\frac{1}{4}$ of Section 20 shall be operated by Arch Petroleum Inc.

(2) The application of Arch Petroleum Inc. in Case No. 13275, seeking a non-standard gas spacing and proration unit in the Jalmat Gas Pool comprised of the NW $\frac{1}{4}$ of Section 21, Township 23 South, Range 37 East, NMPM, to be dedicated to the C.E. Lamunyon Well No. 2, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of the section, is hereby approved.

(3) Jurisdiction of this case is 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

MARK E. FESMIRE
Director

SEAL

GALLEGOS LAW FIRM

A Professional Corporation

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E-Mail glf460@spinn.net

2004 JUN 10 AM 9 15

June 10, 2004
(Our File No. 04-359.00)

J.E. GALLEGOS **

VIA HAND-DELIVERY

Michael E. Stogner
Hearing Examiner
New Mexico Oil Conservation Division
P.O. Box 6429
Santa Fe, New Mexico 87504

Re: Application of Arch Petroleum Inc. and Westbrook Oil Corporation
OCD Case No. 13274

Dear Examiner Stogner:

On behalf of Fulfer Oil & Cattle Co. we are hereby submitting two forms of Requested Orders for your consideration. One requested order denies the applications and the other grants the applications in part. The blank concerning notice is because Mr. Bruce did not have the proof at the hearing and I do not know whether it has been supplied in the meantime.

By copy of this letter we are filing the original Requested Orders with the Division. Likewise, we are serving opposing counsel with the documents.

Please advise if we might be of further assistance or provide any information that you believe is necessary.

Sincerely,

GALLEGOS LAW FIRM, P.C.

By


J.E. GALLEGOS

JEG:sg

Enclosures

cc: Florene Davidson (w/enclosures)
James Bruce (w/enclosures)
Gregg Fulfer (w/enclosures)

BEFORE THE OIL CONSERVATION DIVISION
DEPARTMENT OF ENERGY AND MINERALS
STATE OF NEW MEXICO

APPLICATION OF ARCH PETROLEUM INC. AND
WESTBROOK OIL CORPORATION FOR APPROVAL
OF TWO NON-STANDARD GAS SPACING AND
PRORATION UNIT IN THE JALMAT GAS POOL.

2004 JUN 10 AM 9 15

No. 13274
Order No. R-____

FULFER REQUESTED
ORDER OF THE DIVISION

By the Division

This case came on for hearing on a joint record with Case No. 13275 at 1:15 p.m. on May 27, 2004 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

Now on this ____ day of June, 2004, the Division Director, having considered the record and the recommendation of the Examiner,

FINDS THAT:

(1) Due public notice _____ and the Division has jurisdiction of this case and of the subject matter.

(2) The Applicants seek approval of (i) a non-standard gas spacing and proration unit comprised of the SW/4 of Section 20, Township 23 South, Range 37 East, to be dedicated in the Jalmat Gas Pool to the Steeler "A" Well No. 1, located in the NW/4 SW/4 of the section, and (ii) a non-standard gas spacing and proration unit comprised of the SE/4 of Section 20 in said township and range, to be dedicated in the Jalmat Gas Pool to the Resler "B" Well No. 1, located in the NW/4 SE/4 of the section.

(3) Fulfer Oil & Cattle Co. an affected operator of Jalmat Pool gas wells, the Johnson #3 and #4, in the N½ of Section 20, Township 23 South, Range 37 East, appeared by counsel and presented evidence in opposition to the application.

(4) Arch Petroleum Inc. ("Arch") is the assignee of an oil and gas lease covering the NE¼ SW¼ and SE¼ (200 Acres) of the subject Section 20. Arch is the operator of the Resler A #1 (Unit K), the Resler B #2 (Unit O), the Resler B #3 (Unit P) and the Resler B #1 (Unit J), on its 200 acre lease. The Resler B #1 is completed but awaiting action on this application to commence production. The applicant Arch proposes that only the 160 acres comprising the SW¼ be a non-standard gas spacing

unit and be dedicated in the Jalmat Gas Pool to the Resler B #1 well. The 40 acres in the NE $\frac{1}{4}$ of the SE $\frac{1}{4}$ of its lease would be omitted.

(5) Arch holds no ownership interest in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ and S $\frac{1}{2}$ SW $\frac{1}{4}$ and is not the operator of the wells in that 120 acres. Westbrook Oil Corp. was said to be the contract operator of the wells in that 120 acre portion of the S $\frac{1}{2}$ of the subject Section 20. No evidence was presented as to the identification of working interest or mineral interest owners in that acreage and no witness appeared on behalf of Westbrook or the affected interest owners.

(6) Arch recently permitted the LaMunyon #78 and LaMunyon #32 wells in the adjoining NW $\frac{1}{4}$ of Section 28, Township 23 South, Range 37 East, as "Langlie Mattix 7 Rivers Grayburg" completions. It recently was discovered by the Division District I Supervisor, however, that the wells and another well similarly permitted and completed by Arch, were actually completed in the Jalmat Pool. The District Supervisor ordered Arch that any gas produced from such wells would be illegal and the wells must remain shut-in until properly permitted. On April 30, 2004, Arch filed an application to legalize the LaMunyon #78 and #32 wells by creating a nonstandard Jalmat Pool spacing unit consisting of the NW $\frac{1}{4}$ of said section 28 to which those two wells would be dedicated.

(7) Arch's Form C-105 for completion of the Resler B #2 and #3 wells in Units O and P of the subject S $\frac{1}{2}$ of Section 20 represented the wells to have been completed in the Langlie Mattix pool in the Seven Rivers Queen Grayburg formations on oil well spacing units of 40 acres each. The upper set of perforations in both the Resler B #2 and #3 are more than 100 feet above the base of the Seven Rivers formation and so are opened in the Jalmat Pool.

(8) Arch's engineer, Mark Kelly, testified that based on the volumes of daily oil and gas production the Resler B #2 and #3 are in his opinion oil wells. An Arch witness testified that the company was willing to squeeze off the upper perforations in the Jalmat Pool and produce the Resler B #2 and #3 as only Langlie Mattix oil wells.

(9) The Resler A #1 in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ was drilled to a depth of 3700' on March 16, 2004 and is reported by Arch as completed in the Langlie Mattix pool in the Seven Rivers and Queen formations. There is no production history on the well.

(10) Order No. R-8170-D in Case No. 12563 sets out the Special Rules and Regulations for the Jalmat Gas Pool. Pertinent here are the following:

Rule 1. The vertical limits of the Jalmat Gas Pool extend "from the top of the Tansil formation to a point 100 feet above the base of the Seven Rivers formation . . ."

Rule 2. Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to

produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

Rule 3.(C) No more than one Jalmat gas well per 160 acres is permitted, unless a special exception is allowed by the Division.

(11) When nonstandard spacing units are established by the Division all mineral and leasehold interests in such nonstandard unit shall share in production. NMSA 1978 Section 70-2-18B.

(12) Arch has engaged in a course of activity in the relevant area of Lea County, New Mexico, in which it has circumvented the Rules and Regulations of the Division, and has misrepresented the completion intervals of wells. By misrepresenting the actual completion intervals in described wells Arch has attempted to produce gas from the Jalmat Pool on 40 acre well spacing without approval of the Division.

IT IS THEREFORE ORDERED

(1) The applications should be and are denied.

(2) Arch is neither the owner nor operator of the wells and acreage in the NW¼ and S½ of the SW¼ of Section 20, and lacks standing to seek creation of a spacing unit to include that acreage and those wells.

(3) The Resler B #1 is not allowed to produce and the Resler B #2 and #3 wells should be appropriately modified to close upper completion intervals in order that they are oil wells productive from the Langlie Mattix pool in deeper formations.

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

DONE at Santa Fe, New Mexico, on the date above set forth.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Director

BEFORE THE OIL CONSERVATION DIVISION
DEPARTMENT OF ENERGY AND MINERALS
STATE OF NEW MEXICO

2004 JUN 10 AM 9 15

APPLICATION OF ARCH PETROLEUM INC. AND
WESTBROOK OIL CORPORATION FOR APPROVAL
OF TWO NON-STANDARD GAS SPACING AND
PRORATION UNIT IN THE JALMAT GAS POOL.

No. 13274
Order No. R-__

FULFER ALTERNATIVE REQUESTED
ORDER OF THE DIVISION

By the Division

This case came on for hearing on a joint record with Case No. 13275 at 1:15 p.m. on May 27, 2004 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

Now on this ____ day of June, 2004, the Division Director, having considered the record and the recommendation of the Examiner,

FINDS THAT:

(1) Due public notice _____ and the Division has jurisdiction of this case and of the subject matter.

(2) The Applicants seek approval of (i) a non-standard gas spacing and proration unit comprised of the SW/4 of Section 20, Township 23 South, Range 37 East, to be dedicated in the Jalmat Gas Pool to the Steeler "A" Well No. 1, located in the NW/4 SW/4 of the section, and (ii) a non-standard gas spacing and proration unit comprised of the SE/4 of Section 20 in said township and range, to be dedicated in the Jalmat Gas Pool to the Resler "B" Well No. 1, located in the NW/4 SE/4 of the section.

(3) Fulfer Oil & Cattle Co. an affected operator of Jalmat Pool gas wells, the Johnson #3 and #4, in the N½ of Section 20, Township 23 South, Range 37 East, appeared by counsel and presented evidence in opposition to the application.

(4) Arch Petroleum Inc. ("Arch") is the assignee of an oil and gas lease covering the NE¼ SW¼ and SE¼ (200 Acres) of the subject Section 20. Arch is the operator of the Resler A #1 (Unit K), the Resler B #2 (Unit O), the Resler B #3 (Unit P) and the Resler B #1 (Unit J), on its 200 acre lease. The Resler B #1 is completed but

awaiting action on this application to commence production. The applicant Arch proposes that only the 160 acres comprising the SW $\frac{1}{4}$ be a non-standard gas spacing unit and be dedicated in the Jalmat Gas Pool to the Resler B #1 well. The 40 acres in the NE $\frac{1}{4}$ of the SE $\frac{1}{4}$ of its lease would be omitted.

(5) Arch holds no ownership interest in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ and S $\frac{1}{2}$ SW $\frac{1}{4}$ and is not the operator of the wells in that 120 acres. Westbrook Oil Corp. was said to be the contract operator of the wells in that 120 acre portion of the S $\frac{1}{2}$ of the subject Section 20. No evidence was presented as to the identification of working interest or mineral interest owners in that acreage and no witness appeared on behalf of Westbrook or the affected interest owners.

(6) Arch recently permitted the LaMunyon #78 and LaMunyon #32 wells in the adjoining NW $\frac{1}{4}$ of Section 28, Township 23 South, Range 37 East, as "Langlie Mattix 7 Rivers Grayburg" completions. It recently was discovered by the Division District I Supervisor, however, that the wells and another well similarly permitted and completed by Arch, were actually completed in the Jalmat Pool. The District Supervisor ordered Arch that any gas produced from such wells would be illegal and the wells must remain shut-in until properly permitted. On April 30, 2004, Arch filed an application to legalize the LaMunyon #78 and #32 wells by creating a nonstandard Jalmat Pool spacing unit consisting of the NW $\frac{1}{4}$ of said section 28 to which those two wells would be dedicated.

(7) Arch's Form C-105 for completion of the Resler B #2 and #3 wells in Units O and P of the subject S $\frac{1}{2}$ of Section 20 represented the wells to have been completed in the Langlie Mattix pool in the Seven Rivers Queen Grayburg formations on oil well spacing units of 40 acres each. The upper set of perforations in both the Resler B #2 and #3 are more than 100 feet above the base of the Seven Rivers formation and so are opened in the Jalmat Pool.

(8) Arch's engineer, Mark Kelly, testified that based on the volumes of daily oil and gas production the Resler B #2 and #3 are in his opinion oil wells. An Arch witness testified that the company was willing to squeeze off the upper perforations in the Jalmat Pool and produce the Resler B #2 and #3 as only Langlie Mattix oil wells.

(9) The Resler A #1 in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ was drilled to a depth of 3700' on March 16, 2004 and is reported by Arch as completed in the Langlie Mattix pool in the Seven Rivers and Queen formations. There is no production history on the well.

(10) Order No. R-8170-D in Case No. 12563 sets out the Special Rules and Regulations for the Jalmat Gas Pool. Pertinent here are the following:

Rule 1. The vertical limits of the Jalmat Gas Pool extend "from the top of the Tansil formation to a point 100 feet above the base of the Seven Rivers formation . . ."

Rule 2. Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

Rule 3.(C) No more than one Jalmat gas well per 160 acres is permitted, unless a special exception is allowed by the Division.

(11) When nonstandard spacing units are established by the Division all mineral and leasehold interests in such nonstandard unit shall share in production. NMSA 1978 Section 70-2-18B.

(12) Arch has engaged in a course of activity in the relevant area of Lea County, New Mexico, in which it has circumvented the Rules and Regulations of the Division, and has misrepresented the completion intervals of wells. By misrepresenting the actual completion intervals in described wells Arch has attempted to produce gas from the Jalmat Pool on 40 acre well spacing without approval of the Division.

IT IS THEREFORE ORDERED

(1) The applications should be denied in part and granted in part.

(2) Arch is neither the owner nor operator of the wells and acreage in the NW $\frac{1}{4}$ and S $\frac{1}{2}$ of the SW $\frac{1}{4}$ of Section 20, and lacks standing to seek creation of a spacing unit to include that acreage and those wells.

(3) Approval is granted to Arch Petroleum Inc. for the formation of a 200 acre nonstandard gas spacing unit comprised of the NE $\frac{1}{4}$ SW $\frac{1}{4}$ and SE $\frac{1}{4}$ of Section 20, Township 23 South, to be dedicated in the Jalmat Gas Pool to the Resler B #1 well located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ (Unit J) of the section.

(4) This approval is conditioned upon the Resler A #1 well being an oil well in the Langlie Mattix Pool and Arch taking appropriate steps to permanently close the upper perforations in the Resler B #2 and #3 wells in order that the wells are productive of neither oil nor gas from formations 100 feet above the base of the Seven Rivers formation; that is, one well only in the Jalmat Pool is approved at this time.

(5) In those respects not approved, the applications are denied.

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

DONE at Santa Fe, New Mexico, on the date above set forth.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Director

JAMES BRUCE
ATTORNEY AT LAW

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SANTA FE, NEW MEXICO 87504

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jamesbruc@aol.com

June 10, 2004

2004 JUN 10 PM 2 16

Hand Delivered

Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case Nos. 13274 & 13275/Arch Petroleum Inc. and Westbrook
Oil Corporation

Dear Mr. Stogner:

Enclosed (hard copy and on disk) is applicant's proposed order in
the above cases.

Very truly yours,



James Bruce

Attorney for Arch Petroleum Inc.

cc: J.E. Gallegos w/encl.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARINGS CALLED
BY THE OIL CONSERVATION DIVISION
FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF ARCH PETROLEUM INC.
AND WESTBROOK OIL CORPORATION FOR
APPROVAL OF TWO NON-STANDARD GAS
SPACING AND PRORATION UNITS IN THE
JALMAT GAS POOL, LEA COUNTY, NEW MEXICO.

Case No. 13274

APPLICATION OF ARCH PETROLEUM INC.
FOR APPROVAL OF A NON-STANDARD GAS
SPACING AND PRORATION UNIT IN THE
JALMAT GAS POOL, LEA COUNTY, NEW MEXICO.

Case No. 13275

Order No. R-

ORDER OF THE DIVISION

(Proposed by Applicants)

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on May 27, 2004 at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this _____ day of June, 2004, 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 these cases and of their subject matter.

(2) The applicants in Case No. 12374, Arch Petroleum Inc. ("Arch") and Westbrook Oil Corporation ("Westbrook"), seek an order approving (i) a non-standard gas spacing and proration unit comprised of the SW $\frac{1}{4}$ of Section 20, Township 23 South, Range 37 East, NMPM, to be dedicated in the Jalmat Gas Pool to the Steeler "A" Well No. 1, located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of the section, and (ii) a non-standard gas spacing and proration unit comprised of the SE $\frac{1}{4}$ of Section 20 in said township and range, to be dedicated in the Jalmat Gas Pool to the Resler "B" Well No. 1, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of the section.

(3) The applicant in Case No. 12375, Arch, seeks an order approving a non-standard gas spacing and proration unit in the Jalmat Gas Pool comprised of the NW $\frac{1}{4}$ of Section 21, Township 23 South, Range 37 East, NMPM, to be dedicated to the C.E. Lamunyon

Well No. 2, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of the section.

(4) Fulfer Oil & Cattle, LLC ("Fulfer"), an offset operator, appeared at the hearing in opposition to the applications.

(5) The Special Pool Rules for the Jalmat Gas Pool (Division Order No. R-8170-P) provide for standard 640 acre gas well units, one gas well per quarter section, and gas wells to be located no closer than 660 feet to a quarter section line nor closer than 330 feet to a quarter-quarter section line or subdivision inner boundary. Non-standard gas well units comprised of one or more complete quarter sections are allowed after notice to offsets. The Jalmat Gas Pool in this area covers the interval from the top of the Tansill formation to a point 100 feet above the base of the Yates formation.

(6) The land testimony presented at hearing, and the records of the Division, show the following:

- (a) Westbrook is operator in the Jalmat Gas Pool of a non-standard 320 acre unit comprised of the S $\frac{1}{2}$ of Section 20, currently dedicated to the Steeler "A" Well No. 1, which was drilled in 1958. NSP 351. Westbrook owns no working interest in the well unit, and is the contract operator.
- (b) In Case No. 13274, Westbrook and Arch propose to split the S $\frac{1}{2}$ of Section 20 into (i) a non-standard Jalmat gas well unit comprised of the SW $\frac{1}{4}$ of Section 20, to be dedicated to the Steeler "A" Well No. 1, to be operated by Westbrook, and (ii) a non-standard Jalmat gas well unit comprised of the SE $\frac{1}{4}$ of Section 20, to be dedicated to the Resler "B" Well No. 1, to be operated by Arch. The Resler "B" Well No. 1 has been drilled to but not completed in the Jalmat Gas Pool.
- (c) Royalty interest ownership is common throughout the S $\frac{1}{2}$ of Section 20, and thus the royalty owners will be unaffected by splitting the S $\frac{1}{2}$ of Section 20 into two well units.
- (d) Arch acquired working interests in the NE $\frac{1}{4}$ SW $\frac{1}{4}$ and SE $\frac{1}{4}$ of Section 20, and pursuant thereto has drilled (in addition to the Resler "B" Well No. 1) the following wells:
 - (i) Resler "A" Well No. 1, located in the NE $\frac{1}{4}$ SW $\frac{1}{4}$;
 - (ii) Resler "B" Well No. 2, located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$;
and

(iii) Resler "B" Well No. 3, located in the SE $\frac{1}{4}$ SE $\frac{1}{4}$.

The above three wells are completed in and producing from the Langlie-Mattix Pool, which is spaced on 40 acres under Division regulations.

- (e) In Case No. 13275, Arch seeks approval for a non-standard Jalmat gas well unit comprised of the NW $\frac{1}{4}$ of Section 21, to be dedicated to the existing C.E. Lamunyon Well No. 2, operated by Arch, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of the section. The C.E. Lamunyon Well No. 2 was drilled in 1959 and is currently completed in a deeper formation. It has not been completed in the Jalmat Gas Pool.
- (f) Both working and royalty interest owners will benefit from the additional production from the wells drilled or to be re-completed by Arch.
- (g) Fulfer is operator of the following Jalmat Gas Pool well units:
 - (i) the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 20, dedicated in the Jalmat Gas Pool to the J.C. Johnson Well No. 5. **NSP 1556;** and
 - (ii) the NE $\frac{1}{4}$, NW $\frac{1}{4}$ NW $\frac{1}{4}$, and S $\frac{1}{2}$ NW $\frac{1}{4}$ of Section 20, dedicated in the Jalmat Gas Pool to the J.C. Johnson Well Nos. 3 and 4, located in Unit Letters D and H, respectively. **NSP 559.**
- (7) The geologic and engineering evidence presented at hearing shows the following:
 - (a) The Resler "B" Lease and the C.E. Lamunyon Lease lie on the eastern fringe of the Jalmat Gas Pool, and have been largely untested in the Jalmat. Although numerous wells were drilled to deeper zones over the years, wells to the east of Section 20 did not have mud logs, and thus the potential of the wells in the Jalmat Gas Pool was unknown until recent drilling and recompletion activity by Arch in the N $\frac{1}{2}$ of Section 28.
 - (b) As you move updip from west to east, the reservoir deteriorates in quality: The reservoir changes from sand to dolomite, and porosity decreases from 12-20% to 6-12%.
 - (c) Pressures in the Jalmat Gas Pool wells in the N $\frac{1}{2}$ of Section 28 are 800 psi, versus 200-300 psi in Sections 19 and 30 to the west, showing that the Resler "B" Lease and

C.E. Lamunyon Lease remain undrained.

- (d) Due to the deterioration of reservoir quality to the east, additional wells are needed in the Jalmat Gas Pool to adequately produce reserves and protect the correlative rights of the interest owners.
- (e) Arch has succeeded in extending production from the Jalmat Gas Pool east of its current extent.

(8) Fulfer contends that the Resler "A" Well No. 1, Resler "B" Well No. 2, and Resler "B" Well No. 3 are partially completed in the Jalmat Gas Pool, and not in the Langlie-Mattix Pool. The evidence shows that:

- (a) All three wells are oil wells, with gas:oil ratios of less than 5000:1, which is consistent with Langlie-Mattix Pool production.
- (b) The Jalmat Gas Pool in this area produces little oil.
- (c) Arch presented a detailed cross-section which shows that the upper perforations in all three wells are less than 100 feet above the base of the Yates formation, and thus are in the Langlie-Mattix Pool.
- (d) Fulfer's witness admitted that the lower perforations in all three wells are in the Langlie-Mattix Pool.

Arch stated that if the Division determined that the upper perforations in the three wells were in the Jalmat Gas Pool, the upper perforations would be squeezed so as to comply with Division regulations. The Division determines that all three wells are Langlie-Mattix Pool producers.

(9) Fulfer has recently recompleted the J.C. Johnson Well No. 3, located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 20, in the Jalmat Gas Pool. Fulfer provided no data on the well to the Division. Fulfer has three Jalmat wells in the N $\frac{1}{2}$ of Section 20, but objects to any additional offset Jalmat Gas Pool wells.

(10) Completing and producing the Resler "B" Well No. 1 and C.E. Lamunyon Well No. 2 in the Jalmat Gas Pool is necessary in order to prevent waste and protect the correlative rights of the interest owners in the proposed well units.

(11) Both applications should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Arch Petroleum Inc. and Westbrook Oil Corporation in Case No. 13274, seeking (i) a non-standard gas spacing and proration unit comprised of the SW $\frac{1}{4}$ of Section 20, Township 23 South, Range 37 East, NMPM, to be dedicated in the Jalmat Gas Pool to the Steeler "A" Well No. 1, located in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of the section, and (ii) a non-standard gas spacing and proration unit comprised of the SE $\frac{1}{4}$ of Section 20 in said township and range, to be dedicated in the Jalmat Gas Pool to the Resler "B" Well No. 1, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of the section, is hereby approved. The SW $\frac{1}{4}$ of Section 20 shall be operated by Westbrook Oil Corporation, and the SE $\frac{1}{4}$ of Section 20 shall be operated by Arch Petroleum Inc.

(2) The application of Arch Petroleum Inc. in Case No. 13275, seeking a non-standard gas spacing and proration unit in the Jalmat Gas Pool comprised of the NW $\frac{1}{4}$ of Section 21, Township 23 South, Range 37 East, NMPM, to be dedicated to the C.E. Lamunyon Well No. 2, located in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of the section, is hereby approved.

(3) Jurisdiction of this case is 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

MARK E. FESMIRE
Director

SEAL