

**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. 14271
ORDER NO. R-13113-A**

**APPLICATION OF VANGUARD PERMIAN,
LLC FOR A NON-STANDARD GAS SPACING
AND PRORATION UNIT, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 16, 2009, at Santa Fe, New Mexico, before Examiners David K. Brooks and Terry Warnell.

NOW, on this 18th day of May, 2009, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

- (1) Due notice has been given, and the Division has jurisdiction of the subject matter of this case.
- (2) Vanguard Permian, LLC (OGRID 258350) ("Applicant") requests approval of a non-standard 80-acre gas spacing unit in the Byers-Queen Gas Pool (73600) consisting of the N/2 NE/4 of Section 32, Township 18 South, Range 38 East, NMPM, in Lea County, New Mexico.
- (3) Vanguard proposes to dedicate the requested non-standard unit to its State A Well No. 7 (API No. 30-025-35820) ("the State A No. 7 well"), located at an unorthodox gas well location, 760 feet from the North line and 500 feet from the East line (Unit A) of Section 32. Vanguard also requests approval of the unorthodox location of the No. 7 well.

(4) This application was originally filed as an administrative application for approval of a non-standard unit and non-standard location. Notice of the application was provided to offsetting operators as required by Rules 15.13.C and 4.12.A.

(5) Techsys Resources LLC, (OGRID 185128) ("Techsys") protested the application. Techsys is the operator of the WD Grimes NCT-A Well No. 4 (API No. 30-025-07522) ("the Grimes No. 4 well"), located at an unorthodox gas well location, 330 feet from the North line and 2310 feet from the West line (Unit C) of Section 32, Township 18 South, Range 38 East, NMPM, in Lea County, New Mexico.

(6) Spacing in the Byers-Queen Gas Pool is presently governed by statewide Rule 15.10.C, which provides for 160-acre units, with wells to be located at least 660 feet from spacing unit boundaries. Thus, both Applicant's proposed 80-acre unit, and the location of the State A No. 7 well, are non-standard for this Pool. However, the Division Director has authority, pursuant to Rules 15.11.B(2) and 15.13.B to grant exceptions to these rules.

(7) At the hearing, Applicant appeared through counsel and presented engineering evidence to the effect that:

(a) Based on volumetric calculations, the probable drainage radius of the State A No. 7 well will be approximately 448 feet. Since the well is located 500 feet from the nearest boundary of the proposed unit, these calculations would indicate that the drainage area of the State A No. 7 well would be entirely contained within the proposed unit.

(b) Based on similar calculations, the probable drainage radius of the Grimes No. 4 well is approximately 750 feet. Since the Grimes No. 4 well is located less than 750 feet from the eastern and northern boundaries of its NW/4 spacing unit, it probably has drained or will drain some gas from outside the boundaries of its spacing unit, but cannot produce any of the gas that can be produced from the State A No. 7 well, which is located close to the eastern boundary of the NE/4 of Section 32, almost one-half mile from the Grimes No. 4 well.

(8) Techsys appeared through a corporate representative and presented testimony in opposition to the application. However, nothing in the testimony of Techsys' witness called into question the assumptions or volumetric calculations presented by Applicant. Techsys' witness emphasized the probable injury to correlative rights from allowing an effective 80-acre spacing pattern in a pool spaced on 160 acres. However, he also testified that there is another producing well, the WD Grimes NCT-A Well No. 1 (API No. 30-025-07519), completed in the Byers-Queen Gas Pool and located in the NW/4 NW/4 of Section 32, in the same 160-acre spacing unit as the Grimes No. 4 well. He did not explain how correlative rights of an owner of a 160-acre unit containing two producing wells would be impaired by allowing a one-well per 80 acres average density in the pool.

The Division concludes that:

(9) The State A No. 7 well is located only 500 feet from the East line of Section 32, on the far easterly side of the proposed N/2 NE/4 unit, 3,140 feet from the western boundary of the proposed unit, and more than 3,400 feet from the State A No. 7 Well, which is located on the *west* offset unit. Thus, the State A No. 7 well could have a drainage radius far in excess of the estimated 448 feet without draining any gas from underneath the NW/4 spacing unit dedicated to the Grimes No. 4 well.

(10) Because the NW/4 spacing unit dedicated to the Grimes No. 4 well contains two producing wells completed in the Byers-Queen Gas Pool, the effective well density in that 160-acre unit, is one well per 80 acres. Accordingly, there is no reason to infer that approval of an 80-acre non-standard unit offsetting that 160-acre unit will impair correlative rights.

(11) The unorthodox location of the State A No. 7 well, which encroaches toward the eastern boundary of the proposed spacing unit, is unlikely to adversely affect Techsys' acreage which offsets the proposed unit to the west, and no evidence was presented at the hearing to indicate that it would do so. Approval of this location will allow utilization of an existing wellbore, thus allowing more economical production of the reserves underlying the proposed unit.

(12) Approval of both the non-standard location of the State A No. 7 well and the proposed non-standard 80-acre gas spacing unit comprising the N/2 NE/4 of Section 32 will prevent waste by facilitating production of gas reserves that would probably not otherwise be produced, and will not impair any party's correlative rights. Accordingly this application should be granted.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to Rule 15.13.B, the unorthodox gas well location of Vanguard Permian, LLC's State A Well No. 7 (API No. 30-025-35820), 760 feet from the North line and 500 feet from the East line (Unit A) of Section 32, is hereby approved.

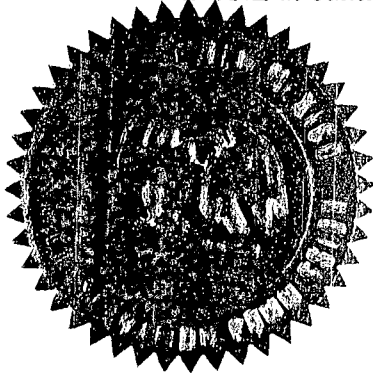
(2) Pursuant to Rule 15.11.B(2), a non-standard spacing unit is hereby established in the Byers-Queen Gas Pool, consisting of the N/2 NE/4 of Section 32, Township 18 South, Range 38 East, NMPM, in Lea County, New Mexico.

(3) The non-standard unit so established shall be dedicated to Applicant's State A Well No. 7.

(4) Division Order No. R-13113 issued in this case on April 17, 2009, directing Applicant to shut-in its State A Well No. 7 because the recompletion of the well in the Byers-Queen Gas Unit was unauthorized, is hereby rescinded.

(5) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary. Without limiting the generality of the foregoing sentence, this case shall remain open for determination of issues regarding the compliance status of Techsys Resources, LLC's WD Grimes NCT-A Well No. 4, which came to the Division's attention as a result of evidence offered at the hearing.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire", written over a horizontal line.

MARK E. FESMIRE, P.E.
Director