

**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. 11201
Order No. R-10313**

**APPLICATION OF DALEN RESOURCES
OIL AND GAS COMPANY FOR POOL
CREATION, THE PROMULGATION OF
SPECIAL POOL RULES, AND FOR THE
ASSIGNMENT OF A SPECIAL DEPTH
BRACKET OIL ALLOWABLE, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 2, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 6th day of February, 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, DALEN Resources Oil and Gas Company, seeks the creation of a new pool for the production of oil from the Strawn formation comprising the S/2 NE/4 of Section 20, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, and the promulgation of special rules and regulations therefor including a provision for 80-acre spacing and proration units and designated well location requirements.

(3) The applicant further seeks the assignment of a special depth bracket oil allowable for the proposed pool, pursuant to Division General Rule Nos. 505 (D) and 505(E) of 320 barrels of oil per day per 80-acre proration unit.

(4) At the time of the hearing, the applicant sought to dismiss its request for a special depth bracket oil allowable for the proposed pool.

(5) The evidence presented indicates that the applicant has recently drilled and completed its Shipp "20" Well No. 1 located 1980 feet from the North and East lines (Unit G) of Section 20. The well was completed in the Strawn formation through perforations from 10,858 feet to 10,902 feet at an initial producing rate of 104 barrels of oil per day and 154 MCF gas per day.

(6) Division records indicate that there are several Strawn pools within Township 17 South, Range 37 East, namely the Shipp-Strawn, Midway-Strawn, Humble City-Strawn and South Humble City-Strawn, however, the subject well and proposed proration unit are not located within one mile of any of these pools.

(7) Division records further indicate that the Shipp-Strawn, Humble City-Strawn and South Humble City-Strawn Pools are currently governed by Special Rules and Regulations which include provisions for standard 80-acre spacing and proration units with wells to be located no closer than 150 feet from the center of a governmental quarter-quarter section or lot. The Midway-Strawn is currently governed by Statewide Rules and Regulations which include provisions for standard 40-acre spacing and proration units with wells to be located no closer than 330 feet from the outer boundary of the proration unit.

(8) The geologic evidence presented by the applicant indicates that the Shipp "20" Well No. 1 has discovered a separate and distinct Strawn algal mound within Section 20. This producing structure, according to applicant's evidence, appears to be limited in extent and comprises only a portion of Sections 16, 17, 20 and 21.

(9) The preliminary engineering evidence presented by the applicant indicates that the Shipp "20" Well No. 1 should be capable of draining an area in excess of 80 acres.

(10) No offset operator and/or interest owner appeared at the hearing in opposition to the application.

(11) In order to 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, prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 80-acre spacing units should be promulgated for the proposed pool.

(12) The temporary special rules and regulations should provide for designated well locations such that a well should be located within 150 feet of the center of a governmental quarter-quarter section or lot in order to assure the orderly development of the pool and protect correlative rights.

(13) The applicant requested that the proposed pool rules contain a provision whereby only one well may be drilled within a standard 80-acre proration unit in order to effectively limit well density, at least during the period when the temporary rules are in effect.

(14) This request is reasonable and should be granted.

(15) At the request of the applicant, temporary special rules and regulations for the proposed pool should be established for a period of two years in order to allow the operators in the subject pool the opportunity to gather sufficient reservoir information to show that an 80-acre unit in the area can be efficiently and economically drained and developed by one well.

(16) Pursuant to Division General Rule Nos. 505(A) and 506(A), the subject pool should be assigned a depth bracket allowable of 400 barrels of oil per day at a limiting gas-oil ratio of 2,000 cubic feet of gas per barrel of oil.

(17) The applicant requested that the subject pool be designated the Opal-Strawn Pool. This proposed pool name is not in conformance with Division nomenclature policy, and therefore this request should not be granted.

(18) A new pool classified as an oil pool for Strawn production should be created and designated the South Midway-Strawn Pool, with vertical limits to include the Strawn formation and the horizontal limits comprising the NE/4 of Section 20, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico.

(19) This case should be reopened at an examiner hearing in February, 1997, at which time the operators in the subject pool should be prepared to appear and show cause why the Temporary Special Rules and Regulations for the South Midway-Strawn Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of DALEN Resources Oil and Gas Company, a new pool in Lea County, New Mexico, classified as an oil pool for Strawn production is hereby created and designated the South Midway-Strawn Pool, with vertical limits comprising the Strawn formation, and the horizontal limits comprising the NE/4 of Section 20, Township 17 South, Range 37 East, NMPM.

(2) Temporary Special Rules and Regulations for the South Midway-Strawn Pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
SOUTH MIDWAY-STRAWN POOL

RULE 1. Each well completed in or recompleted in the South Midway-Strawn Pool or in the Strawn formation within one mile thereof, and not nearer to or within the limits of another designated Strawn oil pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. Each well completed or recompleted in the South Midway-Strawn Pool shall be located on a unit containing 80 acres, more or less, which consists of the N/2, S/2, E/2 or W/2 of a single governmental quarter section.

RULE 3. No more than one well shall be drilled on a standard 80-acre proration unit.

RULE 4. The Director of the Oil Conservation Division, hereinafter referred to as the "Division" may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit consisting of less than 80 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 5. Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 6. The Division Director may grant an exception to the requirements of Rule 5 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 7. The allowable for a standard proration unit (79 through 81 acres) shall be based on a depth bracket allowable of 400 barrels of oil per day, and in the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

IT IS FURTHER ORDERED THAT:

(3) The location of all wells presently drilling to or completed in the South Midway-Strawn Pool or in the Strawn formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(4) Pursuant to Paragraph A of Section 70-2-18, N.M.S.A. 1978 Comp., contained in Laws of 1969, Chapter 271, existing oil wells in the South Midway-Strawn Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable until a non-standard spacing unit has been approved and, subject to said 60-day limitation, each well presently drilling to or completed in the South Midway-Strawn Pool or in its corresponding vertical limits as described in Ordering Paragraph No. (1) above, or within one mile thereof, shall receive no more than one-fourth of a standard allowable for said pool.

(5) This case shall be reopened at an examiner hearing in February, 1997, at which time the operators in the subject pool may appear and show cause why the Temporary Special Rules and Regulations for the South Midway-Strawn Pool promulgated herein should not be rescinded.

(6) Applicant's request to establish a special depth bracket oil allowable for the South Midway-Strawn Pool is hereby dismissed.

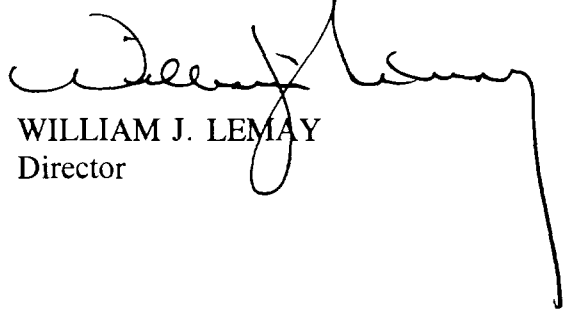
(7) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

Case No. 11201
Order No. R-10313
Page -6-



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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director