

IN THE MATTER OF THE APPLICATION OF :
YATES PETROLEUM CORPORATION FOR AN : CASE NO. 11235
UNORTHODOX OIL WELL LOCATION, EDDY :
COUNTY, NEW MEXICO :
:

(c) for wells located no closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

Case No. 11235

Order No. R-

Page 2

(4) Yates' requested unorthodox well location encroaches toward an offsetting 160-acre spacing unit consisting of the NW/4 of Section 32, T19S, R25E, operated by Conoco, Inc ("Conoco") and currently dedicated to North Dagger Draw-Upper Pennsylvanian Pool production from its Joyce Federal Well No. 1 (Unit D) which is located at a standard well location.

(5) Conoco appeared at the hearing in opposition to the applicant and sought to have the requested location DENIED.

(6) Yates sought approval of the unorthodox location WITHOUT a penalty based upon the following arguments and evidence:

(a) Yates preferred to drill the Aspden Well at a standard location 660 feet from the south and 1980 feet from the west lines of Section 29, which would have placed the surface location of the well in the Seven Rivers Draw, a surface feature in a portion of the SW/4 of Section 29;

(b) Mr. Barry Hunt, as the surface inspection officer for the U. S. Bureau of Land Management (the surface/mineral agency for the southern 80 acres of this particular spacing unit) rejected the proposed standard location because it was located in the Seven Rivers Draw; (see Yates' testimony of Ken Beardemphl);

(c) Mr. Beardemphl testified that he and Mr. Barry Hunt actually walked the surface of the proposed sites and was told by Mr. Hunt that the BLM would not approve a location within 500 feet of the northernmost possible location of 990 feet from the south line and 1980 feet from the west line of Section 29. The reason for the BLM's position was the existence of a second drainage channel lying to the north of the main Seven Rivers Draw drainage channel.

(d) Conoco presented an aerial photograph which clearly showed that a location 1160' from the south line of Section 29 would fall within the northern drainage channel which Mr. Hunt indicted that he would not approve a location in. A site 1160 feet from the south line was the site of the location that Conoco testified would be available to Yates. Conoco's testimony was specifically contradicted by Mr. Beardemphl's testimony and Conoco's

witness admitted to have never personally spoken to Mr. Hunt of the BLM.

(e) An unorthodox well location 330 feet from the south line and 1980 feet from the west line would serve to avoid the Seven Rivers Draw and would be acceptable to the BLM.

(f) Unless the unorthodox well location was approved, its correlative rights would be impaired because it would be denied the opportunity to have four wells in the spacing unit and would effectively deny Yates the opportunity to produce any reserves underlying the SE/4 SW/4 of Section 29, thus causing waste.

(g) Any other location in the spacing unit would put the subject well in the wrong quarter-quarter section and too close to other wells operated by Yates and therefore would not be an efficient pattern for its wells to effectively produce Yates' share of reservoir hydrocarbons, thus causing waste.

(8) Yates presented geologic evidence which demonstrated the following:

(a) The proposed unorthodox location is poorer geologically than the orthodox location and is why the well was first proposed at the orthodox location.

(b) Structurally, the unorthodox may be slightly lower and may contain a thinner dolomite reservoir section.

(c) Compared to the other wells in the proration unit it should still make a respectable producer.

(d) Based upon geological considerations, locating the well at the next available location to the north would place the well in the quarter-quarter section to the north which already has a producing well in it, and would constitute waste and fail to protect the correlative rights of Yates.

(9) Yates' petroleum engineering witness contended that Yates' correlative rights would be impaired and waste would occur unless the location was approved without a penalty.

(10) Yates presented engineering calculations showing that (on the basis of 160 acre proration) the drainage due to the unorthodox well location would be 13%.

(11) Yates presented engineering calculations showing that (on the basis of 160 acre proration) the traditional 3 factor penalty would be 21%.

(12) Conoco presented no drainage calculations.

(13) Yates' engineer referered to Case 10519 (the Diamond Well case) and the resulting Order R-9731 whereby a penalty in S. Dagger Draw was assessed against the initial potential of the well.

(14) Yates requested that any penalty assessed be tallied against the initial potential of the well.

(15) Conoco's expert petroleum engineering witness presented a production interference study which demonstrated the following:

(a) The well interference depicted on his exhibits showed the interference occurring in a north/south direction only. Such a conclusion is unfeasible.

(b) In each instance, the interference illustrated by an increased drop in oil production began prior to or at the same time as the second well in the pair began producing, thus belying his conclusion of interference .

(c) He ignored total fluid volumes being produced by the wells studied, thus invalidating his conclusion that interference was actually occurring.

(16) The Division finds as follows:

(a) Yates established that there is no other well location in the SE/4 of the SW/4 of Section 29 for the subject well.

(b) Any comparison of the facts of this case to the facts in Case No. 10731 is inappropriate, because in that case the operator, Nearburg Producing Company, had available to it an acceptable orthodox location upon which there were no restrictions to drilling its proposed well. Any statements made therein by Dr. Boneau must be

taken in context with that very salient, distinguishing fact between that case and the present case.

(c) Failure to grant Yates' application will cause waste and infringe upon the correlative rights of Yates Petroleum Corporation.

(d) Production penalties in a multiple well proration or spacing unit cannot be applied to the entire spacing unit because then such penalty would unfairly penalize orthodox wells. Thus, the only alternatives for the Division are to either invoke a penalty, if justified, on a single individual well or to waive the invocation of any penalty at all.

(e) Approval of Yates' application without a penalty would not afford Yates an unfair competitive advantage over Conoco and would not violate the correlative rights of Conoco, because first, the drainage effect calculated by Mr. Bob Fant was diminutive and second, Conoco prepared no contradictory calculations.

(f) The Division does not feel that the decision made in this case under its peculiar facts will create any dangerous precedent for the pool.

(g) Conoco produced no evidence of any other locations available to Yates within its proposed spacing unit which would provide to Yates an adequate and efficient opportunity to produce its share of recoverable hydrocarbons underlying the SE/4 of the SW/4 of Section 29.

(h) The testimony of Ken Beardemphl, of Yates, amply established that all possible orthodox locations were suggested to the BLM and were denied for the SE/4 of the SW/4 of Section 29.

(17) The applicant's request for an unorthodox well location is justified and should therefore be granted.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation for approval of its proposed Aspden "AOH" Federal Com Well No. 2 to be located at an unorthodox location 330 feet from the south line and

Case No. 11235
Order No. R-
Page 6

1980 feet from the west line (Unit N) of Section 29, T19S, R25E, NMPM, Eddy County, New Mexico, is hereby GRANTED;

(2) No penalty shall be assessed against the production of said proposed Aspden "AOH" Federal Com Well No. 2; and

(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

WILLIAM J. LEMAY, Director

Respectfully submitted,

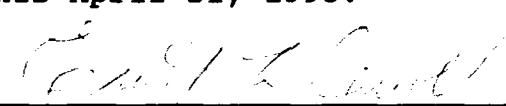
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Attorneys for Yates Petroleum Corp.

I hereby certify that I caused to be mailed a true and correct copy of the foregoing to all counsel of record this April 21, 1995.


Ernest L. Carroll