

**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. 11240
Order No. R-9673-B**

**APPLICATION OF CONOCO INC. TO REOPEN
CASE NOS. 10471 AND 10560 TO VACATE
THE COMPULSORY POOLING PROVISIONS OF
ORDER NO. R-9673-A AND FOR THE CREATION
OF TWO NON-STANDARD 80-ACRE SPACING
AND PRORATION UNITS INCLUDING THE
ASSIGNMENT OF APPROPRIATE ALLOWABLES,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 6, 1995, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 24th day of April, 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) By Order No. R-9673 issued in Case No. 10471 on May 6, 1992, the Division, upon application of Southwest Royalties, Inc. (Southwest), pooled all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, forming a standard 160-acre spacing and proration unit for any and all formations and/or pools developed on 160-acre spacing within said vertical extent, which included the North Dagger Draw-Upper Pennsylvanian Pool. Said unit was to be dedicated to a well to be drilled at a standard location within the SW/4 NE/4 (Unit G) of Section 17.

(3) The interests effectively pooled by said Order No. R-9673 included an 85.75 percent interest, more or less, owned by Conoco Inc. (Conoco) and a 1.75 percent interest, more or less, owned by Martha L. (Scarlett) Nunes, whom the applicant could not locate. Both parties failed to join within the notice period and were deemed to have elected not to participate in the well.

(4) On July 17, 1992, Southwest commenced the drilling of its Dagger Draw Well No. 1 at a standard location 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 17, rather than in Unit G as authorized by Order No. R-9673.

(5) Conoco objected to the relocation of the well from Unit G to Unit B and on August 25, 1992, filed a competing compulsory pooling application (Case No. 10560). Such application sought the pooling of the NE/4 of Section 17, said unit to be dedicated to the Dagger Draw Well No. 1. Included in the application was a request by Conoco to be named operator of the subject well and unit.

(6) On August 14, 1992, Southwest filed an application to reopen Case No. 10471 to request that Division Order No. R-9673 be amended to authorize the change in well location from Unit G to Unit B.

(7) Both Case Nos. 10471 (Reopened) and 10560 were originally scheduled to be heard on September 17, 1992.

(8) Prior to the hearing on September 17, 1992 in Case Nos. 10471 (Reopened) and Case No. 10560, Southwest and Conoco signed a written settlement of the matters in dispute, which, among other things, authorized Conoco to assume operations on the Dagger Draw Well No. 1 and to proceed with completion efforts. The agreement further contained a provision whereby Southwest was allowed to commence drilling a second well, the Dagger Draw "A" Well No. 1 at a standard location in Unit G of Section 17.

(9) The settlement between Southwest and Conoco contemplated joint operators of the spacing unit with Conoco developing the N/2 of the spacing unit and Southwest developing the S/2.

(10) The Division held such a settlement would be inconsistent with the established practice of the Division to not have joint operators within a single spacing unit.

(11) Case No. 10471 (Reopened) was heard on November 24, 1992. Case No. 10560 was dismissed at the request of Conoco at the hearing on February 18, 1993.

(12) On November 24, 1992, the Division issued Order No. R-9673-A in Case No. 10471 (Reopened).

(13) Division Order No. R-9673-A effectively:

- a) superseded Division Order No. R-9673;
- b) pooled all mineral interests from the surface to the base of the Canyon formation underlying the NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, forming a standard 160-acre spacing and proration unit for said pool. Said unit to be dedicated to the Southwest Royalties, Inc. Dagger Draw "A" Well No. 1 to be drilled at a standard oil well location 1650 feet from the North line and 1880 feet from the East line (Unit G) of Section 17;
- c) designated Southwest Royalties, Inc. as the operator of the Dagger Draw "A" Well No. 1 and required that the drilling of said well be commenced prior to December 31, 1992;
- d) authorized Conoco to temporarily operate the Dagger Draw Well No. 1 (redesignated the Julie Well No. 2). The well was assigned a temporary test allowable of 100 percent of a standard 160-acre allowable until such time as the Dagger Draw "A" Well No. 1 is in actual production. The allowable assigned to each well subsequent to that time was set at 50 percent of the standard 160-acre allowable for a period of not more than 90 days following first production from the Dagger Draw "A" Well No. 1;
- e) required that Case No. 10471 be reopened at such time as the Julie Well No. 2 and the Dagger Draw "A" Well No. 1 are completed and have been tested in order to resolve or otherwise consider the following issues:
 - 1) the pooling of the NE/4 of Section 17 with regards to the Julie Well No. 2;
 - 2) the assignment of an appropriate allowable to both the Julie Well No. 2 and the Dagger Draw "A" Well No. 1;
 - 3) a determination of whether the spacing unit should be subdivided into two 80-acre non-standard spacing and proration units consisting of the N/2 and S/2 of the NE/4 of Section 17 and the appropriate allocation of allowable;
 - 4) the rights, remedies and obligations to and from Martha L. (Scarlett) Nunes;

- 5) designation of an operator and/or sub-operator(s) for the spacing unit and subject wells;
- 6) appropriate amendments to the subject order to accommodate Conoco's operation of the spacing unit for the Julie Well No. 2; and,
- 7) if necessary, appropriate amendments to the subject order to modify the pooling to create two non-standard 80-acre spacing and proration units.

(14) The applicant in the immediate case, Conoco Inc., seeks to reopen Case No. 10471 and 10560, pursuant to the provisions of Division Order No. R-9673-A, to vacate the compulsory pooling provisions thereof and to create two non-standard 80-acre spacing and proration units consisting of the N/2 and S/2 of the NE/4 of Section 17 for production from the North Dagger Draw-Upper Pennsylvanian Pool, including the assignment of appropriate allowables, designation of operators, and other matters pertinent to this case. The applicant further seeks to establish the proposed non-standard proration units retroactive to the date of first production from the subject wells.

(15) Southwest Royalties, Inc. appeared through legal counsel at the hearing.

(16) At the commencement of proceedings in this case, Conoco, by agreement with Southwest, requested that the portion of its application seeking to reopen Case No. 10560 and to vacate the pooling provisions of Division Order No. R-9673-A be dismissed.

(17) Conoco's request is based upon Southwest's contention that regardless of the ultimate outcome of Conoco's application to establish two non-standard proration units, there are interest owner(s) in the NE/4 that are still subject to the forced pooling provisions of Order No. R-9673-A.

(18) Conoco's request to dismiss the portion of its application seeking to reopen Case No. 10560 and to vacate the pooling provisions of Division Order No. R-9673-A should be granted.

(19) The remaining issues to be considered in this case appear to be Conoco's request to establish two non-standard 80-acre proration units and the assignment of allowables to such units.

(20) Division records indicate that completion operations on the Julie Well No. 2 were concluded by Conoco on or about August 6, 1992. The well IP'd on December 22, 1992 for 369 barrels of oil, 48 barrels of water and 532 MCF gas per day. On February 15, 1993, the supervisor of the Division's Artesia District Office approved Conoco's Division Form C-104 (Request for Allowable and Authorization to Transport Oil and Natural Gas) for the Julie Well No. 2.

(21) Division records further indicate that the Dagger Draw "A" Well No. 1 was spudded by Southwest on November 5, 1992. The well was completed in the North Dagger Draw-Upper Pennsylvanian Pool on or about December 2, 1992. The well IP'd on January 26, 1993 for 30 barrels of oil, 292 barrels of water and 34 MCF gas per day. On February 22, 1993, the supervisor of the Division's Artesia District Office approved Southwest's Division Form C-104 for the Dagger Draw "A" Well No. 1.

(22) According to production information supplied to the Division subsequent to the hearing, as of February 1, 1995, the Julie Well No. 2 had cumulatively produced approximately 104,331 barrels of oil. As of February 1, 1995, the Dagger Draw "A" Well No. 1 had cumulatively produced approximately 73,430 barrels of oil.

(23) As per the terms of Division Order No. R-9673-A, the temporary allowable assigned to the Julie Well No. 2 should have been approximately 37,100 barrels of oil and such allowable should have terminated on or about May 22, 1993. The temporary allowable assigned to the Dagger Draw "A" Well No. 1 should have been approximately 31,500 barrels of oil and such allowable should have also terminated on or about May 22, 1993.

(24) The Julie Well No. 2 is overproduced in the North Dagger Draw-Upper Pennsylvanian Pool in the amount of approximately 67,231 barrels of oil. In addition the Julie Well No. 2 has produced in violation of the terms of Division Order No. R-9673-A for a period of approximately twenty-three months. The Dagger Draw "A" Well No. 1 is overproduced in the North Dagger Draw-Upper Pennsylvanian Pool in the amount of approximately 41,930 barrels of oil. In addition, the Dagger Draw "A" Well No. 1 has produced in violation of the terms of Division Order No. R-9673-A for a period of approximately twenty-three months.

(25) Mr. Jerry Hoover, Regulatory Affairs Specialist for Conoco, testified that Case No. 10471 was not reopened at the proper time pursuant to the provisions of Division Order No. R-9673-A due to inadvertence.

(26) It does not appear that correlative rights were violated as a result of the violation of the terms of Division Order No. R-9673-A, however, such action represents a violation nonetheless, and this matter should be turned over to the Division Director to consider the possible institution of fines and/or penalties against both Conoco and Southwest.

(27) Apart from the issue of the violation of Division Order No. R-9673-A, it appears from the evidence and testimony presented that the best way to resolve this long-standing issue is to establish the proposed non-standard proration units.

(28) According to applicant's testimony, and a statement by Southwest, approval of the proposed non-standard proration units will not have an adverse affect on any interest owner in either proration unit, inasmuch as these interest owners have been treated as if the non-standard units were in existence since date of first production from each of the subject wells.

(29) Conoco has acquired the interest of Martha L. (Scarlett) Nunes within the NE/4 of Section 17.

(30) The amendment of Division Order No. R-9673-A in order to provide for the pooling of all mineral interests from the surface to the base of the Canyon formation underlying the S/2 NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, Eddy County, New Mexico, thereby forming a non-standard 80-acre spacing and proration unit to be dedicated to the Dagger Draw "A" Well No. 1 is consistent with the decision in this case and will not have an adverse affect on any interest owner in the subject proration unit.

(31) Establishment of the proposed non-standard proration units and corresponding allowables retroactive to the date of first production from each of the subject wells should not have an adverse affect on any interest owner or offset operator within or offsetting the subject proration units.

(32) The applicant proposed that the allowable for the subject non-standard proration units be assigned on the basis of an agreement reached between Conoco and Southwest and further identified and described on Exhibit "A" attached hereto.

(33) The proposed allowable agreement is reasonable and protects the correlative rights of all interest owners and offset operators and should be adopted.

(34) The applicant should request any allowable change from the supervisor of the Division's Artesia District Office upon presentation of proposed allowables signed and agreed to by representatives of both Conoco and Southwest.

(35) Until such time as the allowable is changed as per the allowable agreement, each of the subject non-standard proration units should be assigned an allowable of 350 barrels of oil per day.

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 80-acre spacing and proration unit comprising the N/2 NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, is hereby established and dedicated to the Conoco Inc. Julie Well No. 2 (API No. 30-015-27047) (formerly known as the Dagger Draw Well No. 1) located at a standard oil well location 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 17.

(2) A non-standard 80-acre spacing and proration unit comprising the S/2 NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, is hereby established and dedicated to the Southwest Royalties, Inc. Dagger Draw "A" Well No. 1 (API No. 30-015-27159) located at a standard oil well location 1650 feet from the North line and 1880 feet from the East line (Unit G) of Section 17.

(3) The subject non-standard spacing and proration units and corresponding allowables are hereby established and assigned retroactive to the date of first production from the Julie Well No. 2 and the Dagger Draw "A" Well No. 1, those dates being February 15, 1993 and February 22, 1993, respectively.

(4) Decretory Paragraph No. (2) of Division Order R-9673-A is hereby amended to be consistent with this order as follows:

" (2) All mineral interests, whatever they may be, from the surface to the base of the Canyon formation underlying the S/2 NE/4 of Section 17, Township 19 South, Range 25 East, NMPM, North Dagger Draw-Upper Pennsylvanian Pool, Eddy County, New Mexico, are hereby pooled to form an 80-acre non-standard spacing and proration unit for said pool. Said unit shall be dedicated to the Southwest Royalties, Inc. Dagger Draw "A" Well No. 1 located at a standard oil well location 1650 feet from the North line and 1880 feet from the East line (Unit G) of said Section 17."

(5) Allowables for the subject non-standard proration units shall be assigned in conformance with the allowable agreement described on Exhibit "A" attached hereto, provided however, the total of such allowable assigned to the subject non-standard proration units shall not exceed 700 barrels of oil per day.

(6) Until such time as the allowable is changed as per the allowable agreement, each of the subject non-standard proration units shall be assigned an allowable of 350 barrels of oil per day.

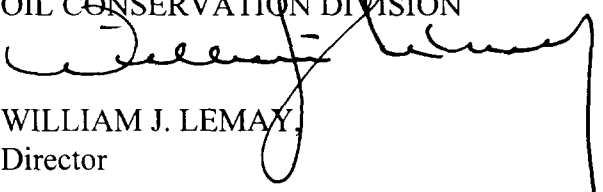
(7) The applicant shall request any allowable change from the supervisor of the Division's Artesia District Office upon presentation of proposed allowables signed and agreed to by representatives of both Conoco and Southwest.

(8) The portions of Conoco's application in this case seeking to reopen Case No. 10560 and to vacate the pooling provisions of Division Order No. R-9673-A are hereby dismissed.

(9) 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 day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY,
Director

S E A L

EXHIBIT "A"
DIVISION ORDER NO. R-9673-B
CASE NO. 11240
ALLOWABLE ASSIGNMENT FORMULA
FOR THE
NE/4, SECTION 17, TOWNSHIP 19 SOUTH, RANGE 25 EAST, NMPM
EDDY COUNTY, NEW MEXICO

Based upon the Special Rules and Regulations for the North Dagger Draw-Upper Pennsylvanian Pool which include:

- a) 160-acre standard proration units
- b) 700 barrels per day oil allowable per standard proration unit.

Allowable assignment between the two 80-acre non-standard proration units comprising the N/2 NE/4 and S/2 NE/4 shall be determined as follows:

- 1) As long as both 80-acre NSPU's are not capable of producing and reporting production in excess of 350 BOPD, each NSPU shall be assigned an oil allowable of 350 BOPD;
- 2) As long as both 80-acre NSPU's are capable of producing and reporting production in excess of 350 BOPD, each NSPU shall be assigned an oil allowable of 350 BOPD;
- 3) If normal daily production for either NSPU naturally declines to the point that it is not capable of producing its 350 BOPD allowable, the other NSPU will have the option of increasing its producing rate to take advantage of the unused portion of the total standard allowable of 700 BOPD for a 160-acre unit;
- 4) If (following the occurrence of No. (3) above), operational problems are solved, and/or remedial work on the well(s) is conducted, and/or more efficient artificial lift equipment is installed, and/or additional wells are drilled which increases production, then the NSPU conducting such work will be allowed to maximize its production:
 - a) Up to its one-half (1/2) share of the total allowable, if the other NSPU can produce in excess of its one-half (1/2) share of the total allowable, or
 - b) In excess of its one-half (1/2) share of the total allowable, if the other NSPU cannot produce its one-half (1/2) share of the total allowable and has unused allowable such that the combined production from both NSPU's does not exceed the total allowable for a standard 160-acre proration unit.

The current producing scenario is described by No. (1) above and is the most likely scenario to continue throughout the lives of these two 80-acre non-standard proration units. However, should the drilling of additional wells or the workovers of existing wells significantly change the producing capability of either or both of these NSPU's, the other three scenarios will provide a means of ensuring fair and efficient recovery for both units.