

**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:

RECEIVED

APR 3 1995

Oil Conservation Division

CASE NO. 11240

THE 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.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by CONOCO INC. as required
by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Conoco Inc.
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ATTORNEY

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OTHER

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Southwest Royalty Inc.

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STATEMENT OF CASE

APPLICANT:

Case 10471 is a compulsory pooling application filed by Southwest Royalty Inc. ("Southwest") involving the NE/4 of Section 17, T19S, R25E, Eddy County, New Mexico.

Case 10560 is a compulsory pooling application filed by Conoco Inc. ("Conoco") involving the same acreage.

By stipulation of Southwest and Conoco, both Case 10471 and Case 10560 were consolidated.

Order R-9763 pooled all mineral interests in the Canyon Formation of the North Dagger Draw-Upper Pennsylvanian Pool underlying a spacing and proration unit containing 160 acres, more or less, and consisting of the NE/4 of Section 17, T19S, R25E, NMPM, Eddy County, New Mexico, and named Southwest as operator for purposes of drilling and completing a well to be located in the SW/4NE/4 (Unit G) of said Section 17.

Conoco objected to the relocation of the well from Unit G to Unit B and filed a competing compulsory pooling application (NMOCD Case 10560) for the dedication of the same spacing unit for the well drilled in Unit B and sought, among other things to be designated the operator.

On August 14, 1992, Southwest filed an application before the Division to reopen Case 10471 so that Order R-9673 could be amended to change the well location from Unit G to Unit B.

On September 25, 1992, Southwest and Conoco signed a written settlement of the matters in dispute, which among other things, authorized Conoco to assume operations of the Southwest Dagger Draw #1 Well in Unit B and to proceed with completion and further authorized Southwest to commence the drilling of the Southwest Dagger Draw Well No. 1 in Unit G.

On October 15, 1992, at the Hearing of Case Nos. 10471 and 10560, Conoco dismissed its pooling case (NMOCD Case 10560).

In order to implement the terms of the Southwest-Conoco Settlement, Southwest amended its application to modify Order R-9673 so that the pooled spacing unit could be dedicated to a well to be drilled by Southwest at a location within Unit G of Section 17.

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 operating the S/2 of the spacing unit.

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. Both Southwest and Conoco agreed that a satisfactory resolution of that issue can be postponed until both wells were drilled, completed and producing capabilities established for each well.

Order R-9673-A issued on May 6, 1992, superseded Order R-9673 and then provided in Decretory Paragraph (16) that the following issues should be held in abeyance pending the completion and establishment of accurate producing rates for both wells:

- (a) The assignment of an appropriate allowable to both the Dagger Draw #1 and #2 Wells;
- (b) 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 the allowable;
- (c) The rights, remedies and obligations to and from Scarlett Nunes;
- (d) Designation of an operator and/or sub-operator(s) for the spacing unit and the subject wells;
- (e) Appropriate amendments to the subject order to accommodate Conoco's operation of the spacing unit for the Unit B well; and
- (f) If necessary, appropriate amendments to the subject order to modify the pooling to create two non-standard 80-acre spacing and proration units.

Conoco and Southwest have each drilled, completed and produced their respective wells for sufficient period of time to now resolve the issues held in abeyance by Order R-9773-A.

Conoco seeks the following:

(1) the approval of a non-standard 80-acre spacing and proration unit ("NSP") consisting of the N/2NE/4 of said Section 17 retroactive to the date of its first production to be dedicated to its 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 said Section 17;

(2) the approval of a non-standard 80-acre spacing and proration unit ("NSP") consisting of the S/2NE/4 of said Section 17 retroactive to the date of its first production dedicated to Southwest's 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 said Section 17; and

(3) The assignment of an allowable as follows:

(a) Each NSP shall be assigned an oil allowable of 350 BOPD (being 50% of a standard allowable) provided each NSP is capable of producing in excess of 350 BOPD;

(b) but if normal daily production for either NSP naturally declines to the point that it is not capable of producing its 350 BOPD allowable, then the other NSP will have the option to increase its producing rate to take advantage of this unused portion of the total standard allowable;

(c) if at any time during the producing life of either NSP, short or long term, operational problems are solved, and/or remedial work on the well is conducted, and/or more efficient artificial lift equipment is installed, etc. which increases production, then the NSP conducting such work will be allowed to maximize its production (i) up to its one-half (1/2) share of the total allowable, if the other NSP can produce in excess of its one-half (1/2) share of the total allowable, or (ii) in excess of its one-half (1/2) share of the total

allowable, if the other NSP cannot produce its one-half (1/2) share of the total allowable and has unused allowable such that the combined production from both NSP does not exceed the total allowable for a standard 160-acre proration unit.

The intent of this allowable sharing arrangement is to ensure that both tracts can fairly and efficiently maintain the maximum rates for its respective interest owners that this proration unit allows.

PROPOSED EVIDENCE

APPLICANT

WITNESSES	EST. TIME	EXHIBITS
Jerry Hoover (petroleum engineer)	30 Min.	est. 4 exhibits

PROCEDURAL MATTERS

Conoco proposes to amend at hearing its application to:

- (1) delete its request to Reopen Case 10471; and
- (2) to delete its request to vacate the pooling provisions of Order R-9673-A.

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