

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:

**APPLICATION OF YATES PETROLEUM
CORPORATION FOR AN
AMENDMENT TO DIVISION
ORDER NO. R-9976-A
AUTHORIZING A CHANGE IN AN
UNORTHODOX "INFILL" GAS
WELL LOCATION, CHAVES
COUNTY, NEW MEXICO.**

CASE No. 11283

**APPLICATION OF TIDE WEST OIL
COMPANY FOR AN
UNORTHODOX "INFILL" GAS
WELL LOCATION AND
SIMULTANEOUS DEDICATION,
CHAVES
COUNTY, NEW MEXICO.**

CASE No. 11355

Order No. R-9976-B

ORDER OF THE DIVISION

BY THE DIVISION:

The cause in both cases came on for hearing at 8:15 a.m. on August 10, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner, however due to errors in the legal advertisement for Case 11355 said case was continued and readvertised for the hearing at 8:15 a.m. on September 7, 1995, at Santa Fe, New Mexico, again before Examiner Michael E. Stogner.

NOW, on this 28th day of November, 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-9976, issued in Case No. 10793 and dated September 24, 1993, the Division granted Yates Petroleum Corporation ("Yates") authorization to implement a pilot "infill" drilling program within portions of the unprorated Pecos Slope-Abo Gas Pool, Chaves County, New Mexico, for the purpose of allowing the applicant the opportunity to gather data to determine if infill-drilling is necessary to effectively and efficiently drain the Abo formation.

(3) Yates was initially authorized by said Order No. R-9976 to drill an infill gas well within each of the following described five standard 160-acre gas spacing units, and within a non-standard 201.29-acre gas spacing unit comprising all of irregular Section 1, Township 6 South, Range 25 East, NMPM, Chaves County, New Mexico:

TOWNSHIP 6 SOUTH, RANGE 25 EAST, NMPM

Section 8: NE/4
Section 11: SE/4
Section 24: SW/4
Section 26: NE/4
Section 35: NE/4.

(4) Order No. R-9976 further authorized Yates to produce both wells within each of the spacing units described above unrestricted for a temporary period of two years for the purpose of gathering geological and engineering data.

(5) Division Order No. R-9976-A, issued to both Case Nos. 10981 and 11004 and dated July 26, 1994, granted Yates the authority to expand its pilot infill drilling project to include the following 19 standard 160-acre gas spacing units in the Pecos Slope-Abo Gas Pool, Chaves County, New Mexico, and on a non-standard 166.0-acre gas spacing unit comprising all of irregular Section 5, Township 6 South, Range 26 East, NMPM, Chaves County, New Mexico:

TOWNSHIP 5 SOUTH, RANGE 25 EAST, NMPM

Section 16: NE/4
Section 32: SW/4

TOWNSHIP 6 SOUTH, RANGE 26 EAST, NMPM

Section 7: NE/4
Section 18: SE/4
Section 19: SE/4
Section 31: NE/4

TOWNSHIP 7 SOUTH, RANGE 25 EAST, NMPM

Section 3: SE/4
Section 10: NW/4
Section 11: SE/4
Section 13: NW/4
Section 15: NW/4
Section 22: NW/4
Section 25: NW/4
Section 27: SE/4
Section 33: SE/4

TOWNSHIP 7 SOUTH, RANGE 26 EAST, NMPM

Section 6: NE/4
Section 18: SE/4
Section 19: SW/4
Section 21: SE/4.

(6) Order No. R-9976-A also authorized Yates to produce both wells within each of the spacing units described above unrestricted until August, 1995 for the purpose of gathering geological and engineering data.

(7) Order No. R-9976-A further provided for 13 of the proposed infill gas well locations within this expanded area to be drilled at unorthodox gas well locations, including its proposed Catterson "SS" Federal Well No. 7 (API No. 30-005-63033), 2310 feet from the South line and 790 feet from the East line (Unit I) of Section 21, Township 7 South, Range 26 East, NMPM, Chaves County, New Mexico.

(8) The Pecos Slope-Abo Gas Pool is at this time considered an "unprorated gas pool" and therefore is not governed by the "*General Rules for the Prorated Gas Pools of New Mexico*", as promulgated by Division Order No. R-8170, as amended. The Pecos Slope-Abo Gas Pool is therefore subject to the Division's Statewide Rule 104.C(2)(a), which requires standard 160-acre gas spacing and proration units with wells to be located no closer than 660 feet from the outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to the

nearest well drilling to or capable of producing from the Abo formation.

(9) The applicant in Case 11283, Yates Petroleum Corporation, seeks to amend said Order No. R-9976-A authorizing a change for the unorthodox infill gas well location of its Catterson "SS" Federal Well No. 7, which has been drilled and completed in the Pecos Slope-Abo Gas Pool at a location 2310 feet from the South line and 660 feet from the East line (Unit I) of Section 21, Township 7 South, Range 26 East, NMPM, Chaves County, New Mexico. The existing standard 160-acre gas spacing and proration unit comprising the SE/4 of said Section 21 is to be simultaneously dedicated, pursuant to said Division Order No. R-9976-A, to the aforementioned Catterson "SS" Federal Well No. 7 and to the Catterson "SS" Federal Well No. 1 (API No. 30-005-61544), located at a standard gas well location 660 feet from the South and East lines (Unit P) of said Section 21.

(10) The applicant in Case 11355, Tide West Oil Company ("Tide West") seeks approval to drill its Chaves "A" Federal Well No. 2 at an unorthodox "infill" gas well location in the Pecos Slope-Abo Gas Pool 2310 feet from the North line and 660 feet from the East line (Unit H) of said Section 21.

(11) Further in Case 11355, Tide West seeks an exception to Division General Rule 104.C(2), as outlined by Division Memoranda dated July 27, 1988 and August 3, 1990, to continuously and concurrently produce gas from the Pecos Slope-Abo Gas Pool from both its proposed Chaves "A" Federal Well No. 2 and from its existing Chaves "A" Federal Well No. 1 (API No. 30-005-61506), located at a standard gas well location 660 feet from the North and East lines (Unit B) of said Section 21 and for the simultaneous dedication of said wells to the standard 160-acre gas spacing and proration unit comprising the NE/4 of said Section 21 for production from the Pecos Slope-Abo Gas Pool.

(12) Both of the subject quarter sections are federal leases and are therefore subject to the United States Bureau of Land Management ("U. S. BLM") authorization and control.

(13) The Catterson "SS" Federal Well No. 7, as originally approved by said Order No. R-9976-A (2310 feet from the South line and 790 feet from the East line of said Section 21), was to be only 330 feet from the quarter section line common to both the SE/4 and NE/4 of said Section 21 or 50% closer to the offsetting 160-acre spacing unit in the NE/4 of said Section 21 (being the subject 160-acre unit in Case 11355). Merit Energy Corporation ("Merit"), offset owner and operator of the (Tide West) Chaves "A" Federal Well No. 1 and dedicated 160-acre unit comprising the NE/4 of said Section 21 at the time Case Nos. 10981 and 11004 were heard, waives objection to this location by

letter dated June 18, 1994.

(14) *On October 17, 1994, Yates filed an Application for Permit to Drill ("APD") with the U. S. BLM which changed the location of the Catterson "SS" Federal Well No. 7 from that originally approved by said Order No. R-9976-A. On November 16, 1994 the U. S. BLM approved the new unorthodox gas well location for said well at a location 2310 feet from the South line and 660 feet from the East line of said Section 21.*

FINDING: The well location move was the result of an "on-site" review with representatives of the U. S. BLM, who advised Yates to move from the proposed "2310' FSL & 750' FEL" as to avoid localized surface drainage. A lateral move to the east of 130 feet was sufficient enough to satisfy the concerns of the U. S. BLM.

(15) On January 4, 1995 Yates spudded the Catterson "SS" Federal Well No. 7 at the new U. S. BLM approved well location and by April 3, 1995 had the well completed and ready to produce Pecos Slope-Abo gas.

(16) By letter dated March 24, 1995 Yates filed with the Division an application for administrative review of the subject unorthodox well location change, furthermore Yates provided notice of this administrative application by certified mail to Merit and to Sanders Petroleum Corporation, the offset operator to the east toward which the well had been moved, who subsequently has waived objection to the move. By letter dated March 30, 1995, Merit advised Yates that it had conveyed its interest in the NE/4 of said Section 21 to Tide West and on that date Yates advised the Division that its administrative application would need to be delayed until the new owner of the NE/4 of said Section 21, Tide West, was notified pursuant to the applicable Division rules and regulations.

(17) On March 31, 1995 Yates sent a copy of its March 24th administrative application to Tide West by certified mail. By letter dated April 12, 1995 Tide West filed its formal objection with the Division to the "2310' FSL & 660' FEL" location. This matter was then set for hearing before a Division Examiner for a final determination.

(18) The geological testimony presented at the hearing indicates the gas bearing Abo formation in this area is lenticular in nature and that many of the sand members or stringers are very small and localized. In this instance the Catterson "SS" Federal Well No. 7 intersected at least one sand member that is not present in Tide West's Chaves "A" Federal Well No. 1; logistically however, it can be presumed that this particular sand member extends into Tide West's acreage in the NE/4 of said Section 21. It is therefore Tide West's intent to protect its acreage from any drainage that may occur from the Yates Catterson "SS" Federal Well No. 7 by directly offsetting said well with one to be drilled

the same distance from Yates' acreage in the SE/4 of said Section 21.

(19) Tide West also requested at the time of the hearing that:

(a) an allowable, based on the optimum maximum rate of production for the Catterson "SS" Federal Well No. 7, of 569 MCFPD be assigned to said well and is to commence from the date the Division enters an order in Case 11283;

(b) the allowable assigned to the Catterson "SS" Federal Well No. 7 be penalized by 50%, based upon the percentage of encroachment of said well from a standard gas well location;

(c) any and all production from the Catterson "SS" Federal Well No. 7 from the date of first production until the date of that order shall constitute "over-production" which shall be made up by subtracting said over-production from the allowable assigned to this well; and,

(d) on the date of "first gas sales" from Tide West's Chaves "A" Federal Well No. 2, the 50% production penalty on Yates' Catterson "SS" Federal Well No. 7 will terminate as of that date for any and all future production from the Yates' well.

(20) Yates at the time of the hearing in Case 11283 opposed the assessment of any penalty on its production from the Catterson "SS" Federal Well No. 7 in that said well is no closer to Tide West's acreage in the NE/4 of said Section 21 than the unorthodox location for this well approved by Division Order No. R-9976-A and in Case 11355 had no objection to Tide West's application.

(21) The assessment of any type of a penalty on a well or unit in an "un-prorated" gas pool would be most difficult and impractical for the Division to monitor and track; FURTHER, Yates, in procuring its original approval to drill the Catterson "SS" Federal Well No. 7 at an unorthodox infill gas well location only 330 feet from the offsetting tract to the north, acted in good faith in filing its application accordingly and in notifying the appropriate offsetting interest owners and any such arrangement between Merit and Yates that led to the aforementioned "waiver of objection" of June 18, 1994 to the "2310' FSL & 790' FEL" or 330 foot offset to their common property line should

follow through from one operator to the next when sold, as was the 160-acre unit comprising the NE/4 of said Section 21 purchased from Merit by Tide West; therefore, the penalty to be imposed on the production from the Yates Catterson "SS" Federal Well No. 7 as proposed by Tide West is hereby denied.

(22) By allowing Tide West to drill an offsetting "infill gas well" in the unprorated Pecos Slope-Abo Gas Pool an equal distance from the Yates' 160-acre tract in the SE/4 of said Section 21 and to grant Tide West an exception to Division General Rule 104.C(2) so that both the existing Chaves "A" Federal Well No. 1 and the proposed Chaves "A" Federal Well No. 2 can continuously and concurrently produce Pecos Slope-Abo gas within the 160-acre unit comprising the NE/4 of said Section 21, the protection of correlative rights for both parties will serve to be adequately protected in this particular case.

IT IS THEREFORE ORDERED THAT:

(1) The application of Tide West Oil Company ("Tide West") in Case 11355 to drill its Chaves "A" Federal Well No. 2 at an unorthodox "infill" gas well location in the Pecos Slope-Abo Gas Pool 2310 feet from the North line and 660 feet from the East line (Unit H) of Section 21, Township 7 South, Range 26 East, NMPM, Chaves County, New Mexico, is hereby approved.

IT IS FURTHER ORDERED THAT:

(2) Tide West is granted an exception to Division General Rule 104.C(2), as outlined by Division Memoranda dated July 27, 1988 and August 3, 1990, to continuously and concurrently produce gas from the Pecos Slope-Abo Gas Pool from both its proposed Chaves "A" Federal Well No. 2 and from its existing Chaves "A" Federal Well No. 1 (API No. 30-005-61506), located at a standard gas well location 660 feet from the North and East lines (Unit B) of said Section 21 and for the simultaneous dedication of said wells to the standard 160-acre gas spacing and proration unit comprising the NE/4 of said Section 21 for production from the Pecos Slope-Abo Gas Pool.

FURTHERMORE:

(3) The application of Yates Petroleum Corporation in Case 11283 is also approved. Division Order No. R-9976-A, dated July 26, 1994, shall be amended by changing the referenced footage location of the "Catterson "SS" Federal Well No. 7" in

Decretory Paragraph No. (5) on page 7 to read:

"2310' FSL & 660' FEL (Unit I) 21-7S-26E".

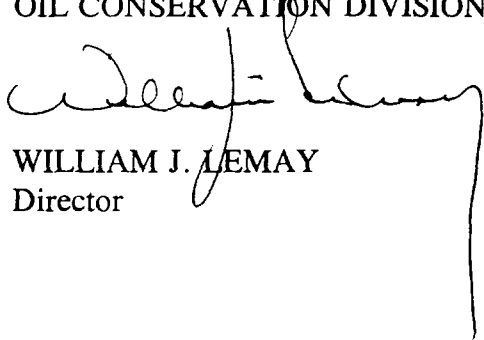
(4) All other provisions of said Order No. R-9976-A shall remain in full force and effect until further notice.

(5) 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