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May 2, 1996

HAND-DELIVERED

Oil Conservation Division
2040 S. Pacheco
Santa Fe, New Mexico 87505

Attn: David R. Catanach
Hearing Examiner

**RE: CASE NO. 11481
APPLICATION OF NEARBURG EXPLORATION
COMPANY FOR AN UNORTHODOX LOCATION**

Dear Mr. Catanach:

Enclosed is the proposed order of Read & Stevens, Inc.,
in the above-referenced case as you requested.

Very truly yours,



ERNEST L. PADILLA

ELP/as

Enclosure

cc: Read & Stevens, Inc.

W. Thomas Kellahin, w/encl.

Proposed Order of Read & Stevens, Inc.

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. 11481
Order No. R-

APPLICATION OF NEARBURG
EXPLORATION COMPANY FOR
APPROVAL OF AN UNORTHODOX
GAS WELL LOCATION, EDDY
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 18, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this _____ day of _____, 1996, 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, Nearburg Exploration Company seeks approval to drill its proposed Black River "10" Federal Com Well No. 1 at an unorthodox gas well location 1330 feet from the North line and 990 feet from the West line (Unit E) of Section 10, Township 24 South, Range 26 East, to be dedicated to a standard 320-acre spacing unit consisting of the W/2 of said Section 10 and to be dedicated to any and all production therein including but not necessarily limited to the undesignated South Carlsbad-Morrow Gas Pool.

3. At the time of the hearing Read & Stevens, Inc., a diagonal offset operator of the Crystal Federal No. 1 well located 1150 feet from the South line and 1650 feet from the East line of Section 4, Township 24 South, Range 26 East, NMPM dedicated to the E/2 of said Section 4, with production from the Undesignated South Carlsbad Morrow Gas Pool, appeared at the hearing hereof in objection to this application and tendered a geological witness and offered evidence in support of its protest.

4. Geological data presented by both parties indicates that production from the Morrow formation may be obtained from various separate sands which may vary in porosity, water saturation, thickness and areal extent.

5. Read & Stevens, Inc., presented evidence that:

- (a) Its Crystal Federal No. 1 Well is currently producing from the middle and upper Morrow sands and that lower-most gas bearing Morrow sands could not be produced through the existing wellbore because production from the lower-most gas bearing sands had become impossible due to perforation of a water saturated sand between the lower-most sands and the currently producing upper sands. As a consequence, the water saturated sands and the lower sands had been mechanically isolated from the currently producing upper sands.
- (b) The lower-most Morrow sands extend to applicant's proposed location, which if drilled, would unfairly allow applicant to drain natural gas reserves from such lower-most Morrow sands.
- (c) Utilization of a cross-plot porosity cutoff of five percent (5%) has resulted in obtaining economic production in re-entry of three wells in the area and has resulted in recovery of natural gas that would not have otherwise been recovered.
- (d) A standard location is structurally higher and has greater porosity higher than the proposed location.

6. A cross-plot porosity cutoff of 8% employed by Applicant is too high, thus shifting the geometry and the geology of the reservoir underlying the W/2 of Section 10, Applicant's proposed spacing unit, too far east and too far north. The cross-plot porosity generally used by the oil and gas industry for the Southern extension of the South Carlsbad Morrow Gas Pool is 5%.

7. As a result of using a cross-plot porosity cutoff of 8%, Applicant failed to honor any data from the drilling of the C&K Petroleum Pennzoil-Federal No. 2 well location in the SW/4 of Section 10. That data is:

- (a) The well tested 1,700 mcfd with no water, and,
- (b) the well is located 92 feet updip from the Mallon Oil Company O'Neal B Com Well No. 1 which has produced 3bcf of natural gas.

8. Except for the difference between 5% and 8% cross-plot porosity cutoffs employed by the respective parties, the geologic geometry of the subject area was not substantially different.

9. A well drilled at a standard location would have a likelihood of encountering better production than one at the proposed unorthodox location.

10. A well drilled at the proposed location would probably not adequately drain the natural gas reserves underlying the SW/4 of Section 10, thus later requiring another well in said SW/4.

11. A well drilled at the proposed location would impair the correlative rights of Read & Stevens, Inc., which, under the circumstances, would not be corrected by assessment of a penalty.

12. The application should be denied.

IT IS THEREFORE ORDER THAT:

1. The application of Nearburg Production Company for an unorthodox gas well location 1330 feet from the West line of Section 10, Township 24 North, Range 26 East, NMPM, is hereby denied.

2. 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

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