

**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. 11599
ORDER NO. R-_____**

**APPLICATION OF GILLESPIE-CROW FOR
POOL EXPANSION AND CONTRACTION,
POOL CREATION, AND SPECIAL POOL RULES,
LEA COUNTY, NEW MEXICO.**

**PROTESTANTS'
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 3, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of October, 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, Gillespie-Crow, Inc., ("Gillespie") operator of the West Lovington Strawn Unit in located in a portion of the West Lovington-Strawn Pool, seeks an order which:

- a) divides the West Lovington-Strawn pool into two separate pools; and

- b) amends the Special Pool Rules for the West Lovington-Strawn Pool to include a Depth Bracket Allowable of 250 BOPD for each well completed in this pool for one year after the well is completed unless the West Lovington-Strawn Unit is expanded to include the tract on which the well is located **or** until the operator of the well demonstrates that it is producing from a separate Strawn reservoir.

(3) At the hearing, Yates Petroleum Corporation appeared and presented evidence in opposition to the Gillespie-Crow application. The application was also opposed at the hearing by the following other interest owners in the West Lovington-Strawn Pool who appeared through legal counsel: Yates Drilling Company, Abo Petroleum Corporation, Myco Industries, Inc., Hanley Petroleum, Inc., David Petroleum Corp., Rio Pecos Corporation, Pathfinder Exploration Company, Cannon Exploration Company, Hollyhock Corporation, Tara-Jon Corporation, Lario Oil and Gas Company, and Vierson and Cochran all of whom will collectively be referred to hereinafter as "Protestants."

POOL BOUNDARIES

(4) The evidence presented established that the current pool boundaries include two separate Strawn reservoirs, which are developed under one set of rules which include the statewide depth bracket allowable for wells drilled to the depth of 445 BOPD.

(5) The West Lovington Strawn Unit was created under the Statutory Unitization Act by Division Order No. R-10449 dated August 29, 1995. At the hearing on the application for creation of this unit, Gillespie testified that:

- a) the boundary of the unit had been reasonably defined by development;
- b) the unit area could be operated under a unit plan; and
- c) unit operations would not impair the correlative rights of other operators in the pool.

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(6) Gillespie requests the boundaries of the West Lovington-Strawn Pool be expanded and contracted to include the following acreage:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 27:	S/2 S/2
Section 28:	S/2 S/2
Section 29:	S/2 SE/4
Section 32:	NE/4, N/2 SE/4
Section 33:	All
Section 34:	All

TOWNSHIP 16 SOUTH, RANGE 35 EAST, N.M.P.M.

Section 1:	Lots 1 - 12
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TOWNSHIP 16 SOUTH, RANGE 36 EAST, N.M.P.M.

Section 6:	Lots 2 - 7, 11, and 12
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(7) The evidence presented by Gillespie showed that the proposed boundaries are not based on a geological interpretation of the data available on this reservoir but, instead, are set to provide an arbitrary buffer zone around the West Lovington-Strawn Unit within which other operators will be restricted by the rules and procedures proposed by Gillespie to limit future operations in this reservoir.

(8) Gillespie also testified that their data on this reservoir establishes that the boundaries of the West Lovington Strawn Unit are "wrong" and that Gillespie is currently proposing to expand the Unit boundaries to include the W/2 SE/4 of Section 34, (the spacing unit on which the State S No. 1 Well is located) and the S/2 SE/4 of Section 28, (the spacing unit on which the Hanley Chandler No. 1 Well is located) both in Township 15 South, Range 35 East, NMPM, Lea County, New Mexico.

(9) Gillespie has failed to establish that the boundaries of the West Lovington-Strawn Pool should be expanded and contracted as requested. Pool boundaries should be

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established based on the best available geological interpretation of the reservoir, not on the basis of an arbitrary buffer zone around a producing unit whose boundaries are admittedly incorrect.

(10) The application of Gillespie to expand and contract the boundaries of the West Lovington-Strawn Pool should be **denied**.

STATE S NO. 1 WELL

(11) In September and October 1995, Gillespie drilled and completed the State S No. 1 Well in the W/2 SE/4 of Section 34, Township 15 South, Range 35 East as a well capable of producing at top allowable rates of 445 BOPD.

(12) After completing the well, Gillespie discovered that a number of other parties owned an interest in this spacing or proration unit and that this well was in communication with the West Lovington Strawn Unit.

(13) Since the date the State S No. 1 Well reached pay out in early 1996, Gillespie has restricted production from the well to rates far below allowable limits (Yates Exhibit No. 6) and to rates below the average rate at which Gillespie has produced wells within the West Lovington Strawn Unit (Yates Exhibit No. 7). Furthermore, while restricting the non-unit State S No. 1 Well, Gillespie has increased the producing rates from the immediately offsetting unit wells (Snyder No.1 and No. 2) thereby draining reserves from the owners of the State S No. 1 and impairing their correlative rights (Yates Exhibit No. 7).

(14) Although others owners in the State S No. 1 Well requested that Gillespie expand the West Lovington-Strawn Unit, Gillespie has delayed this process for a year. When Yates Petroleum called a working interest owners meeting to address this matter in June 1996, Gillespie failed to even announce the results of the ballot on unit expansion that was the subject of that meeting (Yates Exhibit No. 4).

(15) In response to demands of Yates and others to produce the State S No. 1 Well at authorized allowable rates, Gillespie has requested a decrease in the allowable for the West Lovington-Strawn Pool.

(16) Gillespie testified that the requested allowable limit should not affect the Hanley Chandler Well No. 1 located in the S/2 SE/4 Section 28, Township 15 South, Range 35 East and that it only seeks to restrict oil withdrawals from the reservoir and not total fluid withdrawals.

SPECIAL DEPTH BRACKET ALLOWABLE

(17) Gillespie admitted that the requested depth bracket allowable limit of 250 BOPD was an arbitrary number and offered no scientific justification for this limitation. (In later testimony, Gillespie's witness attempted to explain this 250 BOPD figure but admitted the justification he was presenting at the hearing was an explanation he had developed during the hearing and was not utilized by Gillespie in determining what allowable limit to request from the Division).

(18) Gillespie's witness admitted that:

- a) the requested lower depth bracket allowable would reduce the economic incentive for other operators to drill in this pool,
- b) if another operator drilled a good well in the West Lovington-Strawn Pool, Gillespie would expand the unit to include the well and then the owners would receive only the share of unit production allocated to that tract, and
- c) if another operator drilled a poor well within the pool, Gillespie would not bring the acreage on which that well was located into the pool.

(19) The reduction of the depth bracket allowable for this pool coupled with the threat of unit expansion if another operator drills a good well within this pool, has such a chilling effect on the ability of other operators in this pool to avail themselves of their opportunity to produce their share of the reserves in this reservoir that it impairs correlative rights. Gillespie's request for a special pool depth bracket allowable of 250 BOPD should be **denied**.

STATUTORY UNITIZATION

(20) Gillespie is in the process of expanding the West Lovington Strawn Unit under the Statutory Unitization Act.

(21) The Statutory Unitization Act contains procedures which provide for the expansion of units when, as here, data is developed that shows that additional tracts should be included in a unit area to assure that waste is prevented and correlative rights are protected.

(22) Gillespie's witness testified that the current unit owners have decided that only tracts on which a commercial well has been drilled and completed will be taken into the unit in the future.

(23) The testimony also established that there are tracts in this pool that are not within the unit or proposed unit expansion that will be drained by wells in the unit (Testimony of Nelson concerning the reserves under the NE/4 of section 34). The testimony also established that drilling another well on these tracts to secure their inclusion in the unit could result in the drilling of an unnecessary well.

(24) The prevention of waste and the protection of correlative rights within the West Lovington Strawn Pool can only be achieved by an expansion of the West Lovington-Strawn Unit pursuant to the Statutory Unitization Act and not by the adoption of new pool boundaries and special depth bracket allowables that are not based on either geological or engineering considerations.

(25) Although Gillespie has delayed a year in bringing a proper application before the Division to expand this unit, only with such an application can the rights of all, owners in this pool be protected.

(26) The application of Gillespie-Crow, Inc. should be **denied**.

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IT IS THEREFORE ORDERED THAT:

(1) The application of Gillespie-Crow, Inc. for expansion and contraction of the west Lovington-Strawn Pool and the adoption of a special depth bracket allowable for the pool 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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