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November 14, 1996

VIA HAND DELIVERY

Mr. Michael Stogner
Chief Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Ogden State No. 3 Well - Application of Murchison Oil & Gas, Inc. for an Exception to from Rule 2.B of the Special Pool Rules and Regulations for the White City - Pennsylvanian Gas Pool, Eddy County, New Mexico - Case No. 11624

Dear Mike:

On behalf of Murchison Oil & Gas, Inc., and in line with Murchison's request for early consideration of its application in the referenced case, transmitted you will find a copy of a proposed order which would authorize Murchison to drill its well in line with its application in the referenced case. Also for your use in editing is a "Word Perfect 5.1" diskette on which the proposed order may be found.

Please call if you have any questions with respect to the language proposed by Murchison for the order or if it turns out you should have any difficulty with the use of the enclosed diskette.

Mr. Michael Stogner
November 14, 1996
Page 2

Thank you.

Very truly yours,

HINKLE, COX, EATON,
COFFIELD & HENSLEY, L.L.P.



Conrad E. Coffield

CEC/bc

Enclosures

cc: Michael S. Daugherty
Murchison Oil & Gas, Inc.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION
OF MURCHISON OIL & GAS, INC.
FOR AN EXCEPTION TO FIELD RULES
FOR THE WHITE CITY - PENNSYLVANIAN
GAS POOL, EDDY COUNTY, NEW MEXICO

Case No. 11624

ORDER OF THE DIVISION
(Proposed by Murchison Oil & Gas, Inc.)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 7, 1996, at Santa Fe, New Mexico before Examiner Michael Stogner.

NOW, on this _____ day of November, 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, Murchison Oil & Gas, Inc. seeks an order permitting the drilling of a third well at an orthodox location in Section 2, Township 25 South, Range 26 East, NMPM, Eddy County, New Mexico, with applicant dedicating all of said Section 2 to the well to test to the formations included within the White City-Pennsylvanian Gas Pool. The order which is sought by applicant is an exception to the existing Rule 2B of the Special Rules and Regulations for said White City-Pennsylvanian Gas Pool. Said well, known as the Ogden State No. 3 Well, is to be simultaneously dedicated, along with the exiting Ogden State No. 1 Well and Ogden State No. 2 Well to a 640-acre gas spacing and proration unit comprising all of Section 2, Township 25 South, Range 26 East, NMPM, Eddy County, New Mexico as such spacing is permitted under the Special Rules and Regulations for the White City-Pennsylvanian Gas Pool.

(3) Applicant operates both the existing Ogden State No. 1 Well and the Ogden State No. 2 Well. All of said Section 2 is dedicated to said wells.

(4) Matador Petroleum Company, an offset operator, appeared at the hearing in support of Murchison Oil & Gas, Inc.'s application and presented evidence and testimony in Matador's Case No. 11636 for its own exception from Rule 2.B of the Special Rule and Regulations for the White City-Pennsylvanian Gas Pool; Murchison's Case No. 11624 and Matador's Case No. 11636 were consolidated for purposes of hearing.

(5) Chevron USA, Inc., an offset operator, appeared at the hearing, but presented no evidence either in opposition to or in support of applicant's request.

(6) Applicant presented geologic and engineering evidence and testimony in support of its position. This geologic and engineering evidence and testimony is generally in agreement that:

- (a) the White City-Pennsylvanian Gas Pool rules provide in pertinent part as follows:

"Rule 2 (as amended by Order No. R-2429-D, April 1, 1981)

"A. Each well completed or recompleted in the White City-Pennsylvanian Gas Pool shall be located on standard unit containing 640 acres, more or less, consisting of a single governmental section.

"B. Nothing in this Rule shall be construed as prohibiting the drilling of additional wells on a standard proration unit provided that there shall be no more than two producible wells on any one proration unit at one time.

"C. That for good cause shown the Director of the Division may waive the requirements of Rule 2B above."

- (b) The Special Rules and Regulations for the White City-Pennsylvanian Gas Pool designate the entire Pennsylvanian geologic system within a broad designation of the "Pennsylvanian Formation";
- (c) It is commonly recognized precedentially by geologic and engineering experts that the term "Pennsylvanian Formation" embraces several separate producing formations which are not in communication with one another and these include the Strawn Formation, the Atoka Formation, and the Morrow Formation;

- (d) Underlying Section 2, Township 25 South, Range 26 East NMPM Eddy County, New Mexico formations of the Pennsylvanian age which are found to have hydrocarbons in commercial quantities are the Atoka Formation and the Morrow Formation; these formations are separate and apart from one another and exploration and production activities in one of these formation has no effect in the other formation;
- (e) Murchison's Ogden State No. 1 Well is completed and is producing from the Morrow formation and Murchison's Ogden State No. 2 Well is completed and is producing from the Atoka Formation;
- (f) In a section offsetting said Section 2, there are found two current completions in the Morrow Formation, with said Morrow completions in that one section being entirely in compliance with the Special Rules and Regulations of the White City-Pennsylvanian Gas Pool as quoted above;
- (g) Irrespective of whether Murchison would complete its Ogden State No. 3 Well in the Atoka Formation or in the Morrow Formation, such completion would only be an infill or excess well if viewed from the perspective of wells completed within all formations of the Pennsylvanian age, but the successful drilling and completion of Murchison's Ogden State No. 3 Well would provide Murchison with no production advantage and would be within the implied requirements of the existing pool rules for only two wells within the Morrow Formation or only two wells within the Atoka Formation underlying said Section 2;
- (h) Due to the special geological and engineering features underlying said Section 2, permitting Murchison to drill its Ogden State No. 3 Well as applied for by Murchison in this case does not necessitate any changes in the field rules for the White City - Pennsylvanian Pool.

(7) The evidence and testimony presented in this case indicate that if drilled, the Ogden State No. 3 Well will recover significant hydrocarbons underlying said Section 2 which otherwise would not be recovered from either the Atoka or Morrow formations, or possibly both of said formations.

(8) In accord with the discretion and authority granted to the Director of the Division by Rule 2.C of the Special Rules and Regulations for the White City - Pennsylvanian Gas Pool, good cause

has been shown permitting the Director to waive requirements of Rule 2.B of said rules and regulations and authorize Murchison Oil and Gas, Inc. to drill its Ogden State No. 3 Well in line with Murchison's application herein.

(9) The applicant should be authorized to drill its Ogden State No. 3 Well at the proposed orthodox location.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Murchison Oil & Gas, Inc. is hereby authorized to drill its Ogden State No. 3 Well at an orthodox location located 1650 feet from the South line and 1650 feet from the West line of Section 2, Township 25 South, Range 26 East, NMPM, Eddy County, New Mexico.

(2) All of said Section 2 shall be simultaneously dedicated to the aforesaid Ogden State No. 3 Well and to the existing Ogden State No. 1 Well and Ogden State No. 2 Well, located, respectively, at standard locations 1650 feet from the North line and 1650 feet from the East line of Section 2 and 1650 feet from the North line and 1650 feet from the West line of said Section 2. All of these wells are located in the White City-Pennsylvanian Gas Pool.

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

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