

**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. 11655
ORDER NO. R-10730**

**APPLICATION OF MARALO INC. FOR A
NON-STANDARD GAS PRORATION UNIT
AND AN UNORTHODOX GAS WELL
LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 21 and December 19, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 13th day of January, 1997, 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, Maralo Inc., seeks approval of a 160-acre non-standard gas spacing and proration unit in the West Reeves-Queen Gas Pool comprising the S/2 NW/4 and the N/2 SW/4 of Section 16, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico. Said unit is to be dedicated to the applicant's Maralo SV "16" State Well No. 1 (API No. 30-025-29347) located at an unorthodox gas well location 1748 feet from the South line and 742 feet from the West line (Unit L) of Section 16.

(3) According to Division records and applicant's evidence and testimony, the Maralo SV "16" State Well No. 1 was originally drilled in 1985 by Maralo Inc. as a Devonian test at a standard oil well location. The well was initially completed in the Mid Vacuum-Devonian Pool and cumulatively produced approximately 90,000 barrels of oil prior to being recompleted to the Mid Vacuum-Delaware Pool in February, 1990. The well cumulatively produced approximately 22,000 barrels of oil from the Mid Vacuum-Delaware Pool until November, 1995, at which time the well was recompleted in the Queen formation.

(4) Production from the Queen formation commenced in January, 1996, and to date, the applicant has cumulatively produced approximately 98 MMCFG from the subject well.

(5) Division records further indicate that:

- a) a proration unit has not been established for the Maralo SV "16" State Well No. 1 as evidenced from the fact that no Division Form C-102 (Acreage Dedication Plat) has been filed by the applicant for the subject well in the West Reeves-Queen Gas Pool; and,
- b) no Division Form C-104 (Request for Allowable and Authorization to Transport) has been approved by the Division for the subject well in the West Reeves-Queen Gas Pool.

(6) Land testimony presented by the applicant indicates that Maralo Inc, Devon Energy Corporation, Swift Energy, and other minor interest owners currently own an interest in the proposed proration unit.

(7) As of the December 19, 1996 hearing, the applicant has apparently reached an agreement with Devon Energy Corporation and Swift Energy to voluntarily consolidate their acreage to form the proposed non-standard gas spacing unit, however, certain minor interest owners in the proposed proration unit have not yet agreed to such voluntary consolidation.

(8) Applicant's geologic and engineering evidence and testimony indicates that:

- a) the Queen structure being produced by the Maralo SV "16" State Well No. 1 is limited in extent in Section 16 and encompasses only the proposed proration unit and a portion of the S/2 SW/4;
- b) the Maralo SV "16" State Well No. 1 is currently producing at a rate of approximately 300 MCF gas per day;
- c) ultimate gas recovery from the Maralo SV "16" State Well No. 1 is expected to be only 162 MMCFG;

- d) the Queen structure in Section 16 is being adequately drained and developed by the Maralo SV "16" State Well No. 1, therefore no additional wells are likely to be drilled within the W/2 of Section 16.

(9) According to applicant's testimony, although the well is currently being produced, all proceeds from production are currently being held in suspense by the gas purchaser.

(10) Approval of the proposed unorthodox location and non-standard spacing unit will allow the applicant the opportunity to produce its just and equitable share of the gas in the Queen formation underlying the subject acreage, will prevent the drilling of unnecessary wells, and will otherwise prevent waste.

(11) In order to assure that the correlative rights of all interest owners in the subject non-standard gas proration unit are adequately protected, the applicant should be required, within 60 days after entry of this order, to voluntarily consolidate all of the interests in the subject non-standard spacing unit, or in the alternative, file a compulsory pooling application pooling the subject acreage.

(12) In the event the interests are not voluntarily consolidated or the applicant has not initiated compulsory pooling proceedings within 60 days after entry of this order, the Maralo SV "16" State Well No. 1 should be shut-in until such time as the interests are adequately consolidated, either voluntarily or by forced pooling proceedings.

(13) The applicant should be required to keep the Division advised as to the status of its negotiations with the interest owners in the proposed proration unit.

IT IS THEREFORE ORDERED THAT:

(1) The application of Maralo Inc. to establish a non-standard gas proration unit in the West Reeves-Queen Gas Pool comprising the S/2 NW/4 and the N/2 SW/4 of Section 16, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico, is hereby approved.

(2) The subject non-standard gas proration unit shall be dedicated to the applicant's Maralo SV "16" State Well No. 1 (API No. 30-025-29347) located at an unorthodox gas well location, hereby approved, 1748 feet from the South line and 742 feet from the West line (Unit L) of Section 16.

(3) In order to assure that the correlative rights of all interest owners in the subject non-standard gas proration unit are adequately protected, the applicant shall, within 60 days after entry of this order, voluntarily consolidate all of the interests in the subject non-standard spacing unit, or in the alternative, file a compulsory pooling application pooling the subject acreage.

(4) In the event the interests are not voluntarily consolidated or the applicant has not initiated compulsory pooling proceedings within 60 days after entry of this order, the Maralo SV "16" State Well No. 1 shall be shut-in until such time as the interests are adequately consolidated, either voluntarily or by forced pooling proceedings.

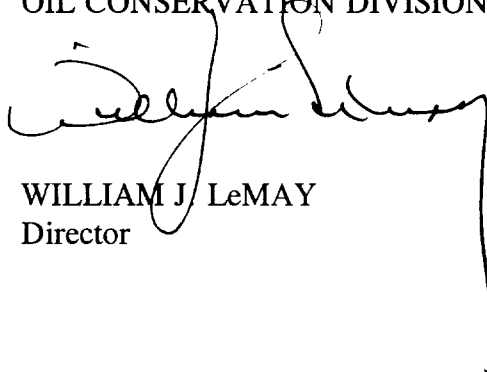
(5) The applicant shall keep the Division advised as to the status of its negotiations with the interest owners in the proposed proration unit.

(6) 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