



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

May 1, 1998

Texaco Exploration and Production Inc.
P. O. Box 3109
Midland, Texas 79702

Attention: A. Phil Ryan
Commission Coordinator

Re: *Administrative application for the creation of a non-standard 80-acre gas spacing and proration unit within the Undesignated Skaggs-Abo Gas Pool comprising the E/2 NW/4 of Section 10, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, to be dedicated to its existing E.H.B. Phillips "C" Well No. 2 (API No. 30-025-33989) located at a standard gas well location 1980' FNL - 660' FEL (Unit H) of Section 10, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico.*

Dear Mr. Ryan:

The Skaggs-Abo Gas Pool currently comprises the S/2 of Section 2, the E/2 of Section 3, all of Section 12, the E/2 of Section 11, the NW/4 of Section 13, the N/2 of Section 14, and the NE/4 and S/2 of Section 15, all in Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, and is subject to Division statewide Rule 104.C(2)(a), requiring 160-acre spacing and proration units and wells to be located no closer than 660 feet to any outer boundary of the dedicated tract nor closer than 330 feet from any quarter-quarter section or subdivision inner boundary. Further, since the Skaggs-Abo Gas Pool is a "non-prorated" gas pool, Division General Rule 104.D(3) applies, which limits standard 160-acre gas spacing units to only one producing well therein. To reiterate, this means that only one well will be allowed in anyone quarter section at a time. The creation of an 80-acre non-standard gas spacing and proration unit in the E/2 NW/4 of said Section 10 would therefore: (i) require the drilling of a second well in the NW/4 of said Section 10 to assure that all interest owners are adequately compensated; and, (ii) would cause inequitable drainage within the surrounding units by doubling the number of wells in the NW/4 of said Section 10. Your application appears to promote waste, does not serve to protect correlative rights, and promotes the drilling of unnecessary wells. Further, your application failed to provide an adequate explanation as to why forced pooling in this instance is not an option.

This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for May 28, 1998 and will be advertised in the following manner:

"Application of Texaco Exploration and Production Inc. for a non-standard gas spacing and proration unit or, in the alternative, for compulsory pooling, Lea County, New Mexico. Applicant seeks authority to establish an 80-acre non-standard comprising the E/2

NW/4 of Section 10, Township 20 South, Range 37 East (which is located approximately three miles southeast of Monument, New Mexico), in the Undesignated Skaggs-Abo Gas Pool. Said unit to be dedicated to its existing E.H.B. Phillips "C" Well No. 2 (API No. 30-025-33989) located at a standard gas well location 1980' FNL - 660' FEL (Unit H) of Section 10. IN THE ALTERNATIVE, applicant seeks an order pooling all mineral interests in the Undesignated Skaggs-Abo Gas Pool underlying the NW/4 of said Section 10, thereby forming a standard 160-acre gas spacing and proration unit for said pool. Said unit is to be dedicated to the above-described E.H.B. Phillips "C" Well No. 2. Also to be considered will be the cost of drilling said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of applicant as operator of the well and a charge for risk involved in drilling said well.

Please provide adequate notice pursuant to Rule 1207.A(5) and (6) of the Division's General Rules and Regulations.

Should you have any questions concerning this matter, please contact your legal counsel, Mr. William F. Carr in Santa Fe at (505) 988-4421.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Hobbs
William F. Carr, Legal Counsel for Texaco Exploration and Production Inc. - Santa Fe
Kathy Valdes - NMOCD, Santa Fe