

NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10416

IN THE MATTER OF:

The Application of Presidio
Exploration, Inc., for an unorthodox
gas well location and simultaneous
dedication, Eddy County, New Mexico.

BEFORE:

MICHAEL E. STOGNER

Hearing Examiner

State Land Office Building

December 19, 1991

COPY

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

1142 Silver

OIL CONSERVATION DIVISION
HARTMAN EXHIBIT NO. 10
CASE NOS. 12015 & 12017

1 arguments. Mr. Carr, I'll allow you to go
2 first. Mr. Bruce, you may follow up.

3 MR. CARR: Mr. Stogner, about
4 two-and-a-half years ago, Presidio developed the
5 north half of section -- of the subject section
6 with their No. 9 well. And now they're back
7 seeking a second well. Yates opposes it. It's
8 very simple. We think the well is unnecessary.

9 We think the well is unnecessary and
10 inappropriate because of the large drainage areas
11 we see because of pressure interference in this
12 reservoir, even pressure interference from the
13 Presidio wells.

14 We think the OCD shouldn't approve this
15 application. This is an application for an
16 unorthodox well location and simultaneous
17 dedication. And we think what it in fact is is
18 an effort to change the pool rules, at least to
19 start down that road, because of wells on the
20 fringe or the flank of the formation that may not
21 be performing as well as other wells in the
22 pool.

23 But in addition to your just not -- our
24 opinion that it's inappropriate for you to change
25 it, I submit to you you really can't, because

1 when you make your decision, you're really going
2 to be bound by two things, the record in this
3 case and the legal framework within which that
4 decision must be made.

5 The legal framework within which that
6 decision must be made includes the Division's
7 memorandum dated August 3, 1990. Part of that
8 memorandum, citing an earlier memo from the
9 Division reads: "Applications for additional
10 wells on existing proration units will be
11 approved only on the understanding that upon
12 completion of the well the operator shall elect
13 which well will be produced and which will be
14 abandoned."

15 It goes on to say: "Application to
16 produce both wells will be approved upon
17 compelling evidence that the applicant's
18 correlative rights will be impaired unless both
19 wells are produced."

20 In this case there is nothing in the
21 record that says Presidio's correlative rights
22 will be impaired. That's what the requirement
23 is.

24 Their geological witness comes before
25 you and talks about the reservoir. Their

1 engineering witness comes before you. And
2 neither one of them can tell you from a
3 geological point of view or from an engineering
4 point of view that their rights will be
5 impaired. They say there may be additional zones
6 that could be picked up. Their engineering
7 witness indicated that if you produce one, shut
8 it in for a month while you produce the other,
9 and rock back and forth, that you get there.

10 They've talked about not impairing the
11 rights of others, but they have never met the
12 requirement of this rule. And there is nothing
13 in this record that would support an order
14 simultaneously dedicating these wells.

15 The best you can do on this record and
16 in the legal framework within which you must
17 operate is to let them drill it and then order
18 them to plug one or the other. And, simply, that
19 is an unnecessary and wasteful practice.

20 I would request that the memorandum of
21 the Division dated August 3, 1990, be
22 incorporated into the record. And that concludes
23 our presentation.

24 EXAMINER STOGNER: So it will be.

25 Mr. Bruce.

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. 10416
ORDER NO. R-9644*

APPLICATION OF PRESIDIO EXPLORATION, INC.
FOR AN UNORTHODOX GAS WELL LOCATION AND
SIMULTANEOUS DEDICATION, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 19, 1991, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 13th day of March, 1992 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 in this matter, Presidio Exploration, Inc., is currently developing the East Burton-Flat Strawn Gas Pool underlying Section 1, Township 20 South, Range 29 East, NMPM, Eddy County, New Mexico, in the following manner:

- the N/2 equivalent of said Section 1 comprising 321.20 acres is dedicated to the Superior Federal Well No. 9, located at a standard gas well location 1830 feet from the North line and 1980 feet from the East line (Unit G). This well was drilled to a total depth of 11,892 feet by The Petroleum Corporation of Delaware in January/February 1991. In April, 1991, this well was dually completed in both the East Burton Flat-Strawn and East Parkway-Atoka Gas Pools; and,

- the S/2 of said Section 1, comprising 320 acres, is dedicated to the Superior Federal Well No. 8, located at a standard gas well location 990 feet from the South line and 2130 feet from the West line (Unit N). This well was drilled and completed in the second quarter of 1990. On July 31, 1990, this well began producing gas from the East Burton Flat-Strawn Gas Pool.

(3) At this time, Presidio Exploration, Inc. seeks an exception to Division General Rule 104.C(2) to allow for the simultaneous dedication of the existing 321.20-acre gas spacing and proration unit within the East Burton Flat-Strawn Gas Pool, comprising Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of said Section 1 to both the aforementioned Well No. 9 and to its proposed Superior Federal Well No. 10 to be drilled at an unorthodox gas well location 1300 feet from the North and West lines (Unit D) of said Section 1.

(4) The East Burton Flat-Strawn Gas Pool is at this time considered an "unprorated gas pool" and therefore is not governed by the General Rules for the Prorated Gas Pools of New Mexico, as promulgated by Division Order No. R-8170, as amended.

(5) The spacing requirements provided in Division Statewide Rule 104.C(2)(b) would therefore apply in this particular situation. Specifically that which states:

"Unless otherwise provided in special pool rules, each development well for a defined gas pool..., shall be located on a designated drilling tract..."

(6) Two separate memorandums issued by the Division Director on July 22, 1988 and August 3, 1990 set forth officially the Division's interpretation and policy for those instances, such as this case, where an applicant is requesting an additional well on an existing non-prorated gas spacing unit. The Division's conclusions were as follows:

"Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules and reasons for the request."

(7) Yates Petroleum Corporation, a twenty-five percent working interest owner in the aforementioned Superior Federal Well No. 9 and offset operator to the southwest in the S/2 of adjacent Section 2, appeared at the hearing and presented testimony in opposition to Presidio's request for a second well on the existing East Burton Flat-Strawn gas spacing and proration unit comprising the N/2 equivalent of said Section 1.

(8) The applicant, by testimony, demonstrated that the entire N/2 equivalent of said Section 1 may reasonably be presumed productive of gas from said Strawn gas pool. Further, the geological evidence presented by the applicant indicates that a well drilled at the proposed unorthodox gas well location would encounter additional "porosity stringers" not present in the No. 9 well, which would indicate the entire productive Strawn interval underlying the N/2 equivalent of Section 1 is not being adequately drained by the Superior Federal Well No. 9 in the NE/4 equivalent of said Section 1 continuously and concurrently.

(9) Yates Petroleum Corporation's objection in this matter was focused on the simultaneous dedication issue and not the location variance of the proposed Superior Federal Well No. 10.

(10) In the best interest of conservation and to allow Presidio to recover its just and fair share of the gas it's entitled to in the East Burton Flat-Strawn Gas Pool underlying the N/2 equivalent of said Section 1, the applicant should be allowed to drill its Superior Federal Well No. 10 at the proposed unorthodox gas well location in Unit D. Subsequent to the completion of the No. 10 well, the operator should be allowed to produce Strawn gas from both wells only on an alternating basis (one well shut-in while the other produces); at no time should both wells be allowed to produce East Burton Flat-Strawn Gas Pool production continuously and concurrently from both aforementioned wells.

(11) Such production/shut-in cycle period for both wells may be established by the Division Director after administrative request by the applicant; however, such period should not be for less than one month.

IT IS THEREFORE ORDERED THAT:

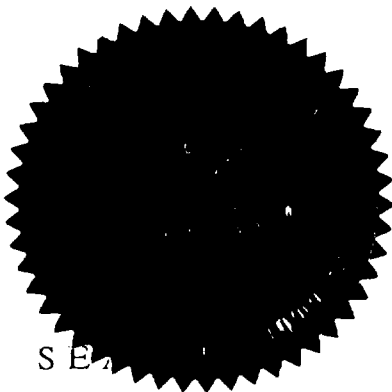
(1) The subject application of Presidio Exploration, Inc. for an exception to Division General Rule 104.C(2) to allow for the simultaneous dedication of the existing 321.20-acre gas spacing and proration unit within the East Burton Flat-Strawn Gas Pool, comprising Lots 1 through 4, and the S/2 N/2 (N/2 equivalent) of Section 1, Township 20 South, Range 29 East, NMPM, Eddy County, New Mexico, to both its Superior Federal Well No. 9 located at a standard gas well location 1830 feet from the North line and 1980 feet from the East line (Unit G) of said Section 1 and to its Superior Federal Well No. 10 to be drilled at an unorthodox gas well location 1300 feet from the North and West lines (Unit D) of said Section 1, is hereby granted conditional approval;

WHEREBY the applicant is permitted to produce Strawn gas from both wells alternately (one well shut-in while the other produces). Said production/shut-in cycle period for both wells may be established by the Division Director after administrative request by the applicant; however, such period shall not be for less than one month.

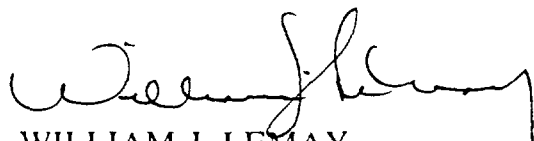
(2) The applicant's request to continuously and concurrently produce East Burton Flat-Strawn Gas Pool production in the N/2 equivalent of said Section 1 from both of said wells is hereby *denied*.

(3) 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