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September 8, 1998

HAND-DELIVERED

Mr. Michael E. Stogner, Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

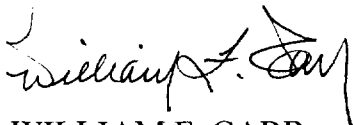
Re: ***Oil Conservation Division Case No. 12024:
Application of Yates Petroleum Corporation for an Unorthodox Well
Location and Simultaneous Dedication, Eddy County, New Mexico***

Dear Mr. Stogner:

Pursuant to your request, enclosed for your consideration is Yates Petroleum Corporation's proposed Order with reference to the August 6, 1998 Examiner hearing in the above-referenced case. For your easy reference, I have also provided it on disk.

If you need anything further from Yates Petroleum Corporation to proceed with your consideration of this matter, please advise.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosure

cc: Mr. Randy Patterson
Mr. Dave Pearson

OIL CONSERVATION DIV.
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. 12024
ORDER NO. R-_____

APPLICATION OF YATES PETROLEUM
CORPORATION FOR AN UNORTHODOX
WELL LOCATION AND SIMULTANEOUS
DEDICATION, EDDY COUNTY, NEW MEXICO.

**YATES PETROLEUM CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 6, 1998, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of September, 1998, the Division Director, having considered the testimony, the record, and the recommendation 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, Yates Petroleum Corporation ("Yates"), seeks an exception to Division Rule 104. C. (2) to permit it to drill its proposed Little Box Canyon AOX Federal Well No. 2 at an unorthodox location 1980 feet from the North line and 1190 feet from the West line as a second well in the W/2 of Section 7, Township 21 South, Range 22 East, and for the simultaneous dedication of the W/2 of Section 7 in the Little Box Canyon-Morrow Gas Pool to the Little Box Canyon AOX Federal Well No. 2 and The Little Box Canyon AOX Federal Well No. 1 located 800 feet from the South line and 1600 feet from the West

line of said Section 7.

(3) The Little Box Canyon-Morrow Gas Pool is governed by statewide rules which provide for 320-acre gas well spacing and proration units with wells located not closer than 660 feet to the nearest side boundary nor 1650 feet from the nearest end boundary of the dedicated tract nor closer than 330 feet to any quarter-quarter section line nor subdivision inner boundary. The Little Box Canyon-Morrow Gas Pool is not a prorated gas pool.

(4) The W/2 of Section 7 is a 240.64 acre unorthodox gas spacing and proration unit which has been previously approved by Division Order No. NSP-1792 entered on July 9, 1998.

(5) Yates' geological evidence showed:

- (a) the Morrow formation in the Little Box Canyon-Morrow Gas Pool is comprised of two reservoirs, an Upper Morrow Sand and a Lower Morrow Sand referred to as the Mescal Sand;
- (b) the Mescal sand is a narrow channel deposit through the W/2 of Section 7 and the N/2 of Section 18 to the south;
- (c) the Mescal sand is structurally higher to the north and has been produced in the Yates Mescal "SE" Federal Well No. 1 located in Unit C of Section 18, Township 21 South, Range 22 East, the south offset to the Little Box Canyon AOX Federal Well No. 1, but has watered out;
- (d) the Little Box Canyon AOX Federal Well No. 1 is also producing large volumes of water from the Mescal sand, and;
- (e) the proposed unorthodox location for the Little Box Canyon AOX Well No. 2 is away from the water in the Mescal sand and is located in the center of this Morrow channel.

(6) The proposed unorthodox well location for the Little Box Canyon AOX Well No. 2 will place the well in the center of the Mescal channel, is only unorthodox toward an interior quarter-quarter Section line and should be **approved**.

(7) The Division permits operators in non-prorated gas pools to continuously and concurrently produce more than one well on a spacing and proration unit only upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced. See memorandum of William J. LeMay dated August 3, 1990.

(8) Yates presented engineering evidence which established that:

- (a) in the Mescal sand the reservoir drive mechanism is an active water drive;
- (b) that since initial production from the Mescal sand the gas/water contact has moved at least a 60 foot up dip in the reservoir;
- (c) the Little Box Canyon AOX Federal Well No. 1 was initially capable of water-free production but, due to increasing water production, now is only marginally productive in the Mescal sand and will soon water out;
- (d) there is pressure communication in the Mescal sand between the Little Box Canyon AOX Federal Well No. 1 in Section 7 and the Mescal "SE" Federal Well No. 1 in Section 18; and
- (e) producing the Little Box Canyon AOX Federal Well No. 1 while continuously and concurrently producing the Little Box Canyon AOX Federal Well No. 2 in the W/2 of Section 7 will dewater the reservoir thereby lowering the abandonment pressure for the reservoir which will result in the additional recovery of natural gas from the Mescal sand.

(9) Additional natural gas will be recovered from the Mescal sand in the W/2 of Section 7 if the Little Box Canyon AOX Well Nos. 1 and 2 are concurrently and continuously produced thereby preventing the waste of natural gas and affording Yates the opportunity to produce its fair share of the reserves in this pool which underlie the W/2 of Section 7 thereby protecting its correlative rights.

(10) The Mescal sand is confined to the W/2 of Section 7 and the N/2 of Section 18 which has watered out and therefore the correlative rights of no offsetting operator will be

impaired by the approval of this application.

(11) The simultaneous dedication of the W/2 of Section 7, Township 21 South, Range 22 East, NMPM, to the Yates Petroleum Corporation Little Box Canyon AOX Federal Wells Nos. 1 and 2 in the Mescal sand of the Morrow formation will result in the increased recovery of hydrocarbons from this formation, will not impair the correlative rights of any operator in this reservoir and should be **approved**.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation for an exception to Division Rule 104. C. (2) to permit it to drill its proposed Little Box Canyon AOX Federal Well No. 2 at an unorthodox location 1980 feet from the North line and 1190 feet from the West line as a second well in the W/2 of Section 7, Township 21 South, Range 22 East, and for the simultaneous dedication of the W/2 of Section 7 in the Mescal sand of the Morrow formation, Little Box Canyon-Morrow Gas Pool, to the Little Box Canyon AOX Federal Well No. 2 and the Little Box Canyon AOX Federal Well No. 1 located 800 feet from the South line and 1600 feet from the West line of said Section 7 is hereby **granted**.

(2) 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 day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

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