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December 10, 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

98 DEC 10 PM 3:41
OIL CONSERVATION DIV.

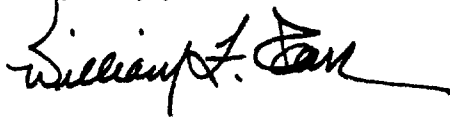
Re: ***Oil Conservation Division Case No. 12076:
Application of Marbob Energy Corporation for Simultaneous Dedication
and Unorthodox Well Locations, Lea County, New Mexico***

Dear Mr. Stogner:

Pursuant to your request, enclosed for your consideration is Marbob Energy Corporation's proposed Order pertaining to the December 3, 1998 Examiner hearing in the above-referenced case.

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

Very truly yours,



WILLIAM F. CARR
WFC:mlh
Enclosure
cc: Raye Miller (w/enclosure)

**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:**

**APPLICATION OF MARBOB ENERGY
CORPORATION FOR SIMULTANEOUS
DEDICATION AND UNORTHODOX WELL
LOCATION, LEA COUNTY, NEW MEXICO.**

**CASE NO. 12076
ORDER NO. R-_____**

98 DEC 10 PM 1:04

OIL CONSERVATION DIV.

**MARBOB ENERGY CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a. m. on December 3, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of December, 1998, 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, Marbob Energy Corporation ("Marbob"), seeks authorization to simultaneously dedicate its Lusk Deep Unit Well No. 1 located at a previously approved unorthodox well location 660 feet from the North and East lines (Unit A), its Lusk Deep Unit Well No. 5 located at a standard location 1980 feet from the South and East lines (Unit J), and its proposed Lusk Deep Unit Well No. 14 to be drilled at an unorthodox well location 1650 feet from the North line and 990 feet from the West line (Unit E) of Section 19,

Township 19 South, Range 32 East, NMPM, to form a standard 643.47-acre spacing and proration unit comprised of Section 19 in the Lusk-Morrow Gas Pool.

(3) The Lusk-Morrow Gas Pool was created on November 21, 1962 and is governed by Special Pool Rules and Regulations which were adopted by Order No. R-2373 on that date which provide for 640-acre spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of the SW/4 NE/4, NW/4 SE/4, NE/4 SW/4, or the SE/4 NW/4 of the section.

(4) Section 19 is within the boundaries of the Lusk Deep Unit, a Federal exploratory unit, which is operated by Marbob.

(5) By Order No. R-5028, dated May 22, 1975, the unorthodox location for the Lusk Deep Unit Well No. 1 was approved and the simultaneous dedication of the Lusk Deep Unit Well No 1. and the Lusk Deep Unit Well No. 5 to Section 19 was authorized.

(6) Marbob's evidence showed that there are numerous productive formations underlying Section 19 and that the potential for hydrocarbon production from formations in addition to the Morrow formation is necessary to economically justify the drilling of an additional well in Section 19. (Testimony of Joyce and Gray)

(7) Deep wells in the Lusk-Morrow Gas Pool area typically produce from multiple formations. (Testimony of Joyce)

(8) There are recoverable gas reserves under Section 19 in the Morrow B zone and above the main pay interval in the Morrow C zone which cannot be produced by any well currently producing from this section. (Testimony of Joyce and Gray)

(9) The proposed Lusk Deep Unit Well No. 14 is located in Section 19 to encounter reserves in the Morrow B zone and the Morrow C zone and therefore should encounter reserves which cannot be recovered from the existing wells in this section. (Testimony of Joyce)

(10) Current low drilling costs make it economically possible to drill an additional well in Section 19. If a Morrow well is not drilled at this time, it may never be drilled and

recoverable reserves will be left in the ground and wasted. (Testimony of Gray)

FINDING: The proposed Lusk Deep Unit Well No. 14 is necessary to produce the recoverable reserves in the Morrow formation under Section 19 thereby preventing waste.

(11) Under current Division policy, additional wells on existing proration units are approved only on the understanding that upon completion of the well the operator shall elect which well be produced and which will be abandoned or will request to produce wells alternatively. (See Division Memorandum dated August 3, 1990)

(12) Requiring Marbob to shut in existing Morrow wells in Section 19, if the proposed Lusk Deep Unit Well No. 14 is successful, would not only delay the recovery of the reserves from the Lusk Deep Unit Wells No. 1 and No. 5 but also could result in water damage to the Morrow formation resulting in the waste of hydrocarbons.

FINDING: The simultaneous dedication of Section 19 to the Lusk Deep Unit Wells 1, 5, and 14 will result in the recovery of hydrocarbons that otherwise will be wasted.

(13) Marbob's geological testimony established that:

- (A) the Morrow formation under Section 19 consists of a northwest-southeast trending channels which contains three distinct zones comprised of narrow lenticular sands of limited extent and continuity (Testimony of Joyce, Marbob Exhibits 8 and 9);
- (B) The Morrow sands are thicker in both the B zone and C zone at the proposed unorthodox well location than at any standard location in Section 19 (Marbob Exhibits 8, 9, 10 and 12); and
- (C) a well at the proposed unorthodox location will be better able to efficiently produce the remaining Morrow reserves under Section 19 than a well at a standard location. (Testimony of Joyce)

FINDING: The proposed unorthodox well location for the Lusk Deep Unit Well No. 14 at a point 1650 feet from the North line and 990 feet from the West line of Section 19, Township 19 South, Range 32 East, NMPM, is necessary to efficiently produce the recoverable reserves from the Morrow B and C zones under Section 19.

FINDING: Approval of an unorthodox well location for the Lusk Deep Unit Well No. 14 and the simultaneous dedication of Section 19 to the Lusk Deep Unit Wells 1, 5, and 14 will afford Marbob with the opportunity to produce the recoverable reserves under Section 19 thereby protecting its correlative rights.

(14) There is limited information available on the Morrow formation in the area surrounding Section 19 and data acquired from the Lusk Deep Unit Well No. 14, may encourage the drilling of additional wells in the Lusk Morrow-Pool. (Testimony of Miller, Joyce and Gray)

(15) Other operators in this area have expressed support for this application, no operator of a tract offsetting Section 19 opposed this application, and Yates Petroleum Corporation, operator of the offsetting Section 31 to the South, wrote the Division in support of increased development density in this pool by providing for multiple wells in a spacing unit where offsetting correlative rights will not be impaired. (See Testimony of Miller, Marbob Exhibit No. 4)

FINDING: The correlative rights of no other interest owner in the Lusk-Morrow Pool will be impaired by the proposed Lusk Deep Unit Well No. 14.

(16) The Division permits operators to continuously and concurrently produce multiple wells on a spacing unit in non-prorated gas pools upon compelling evidence that the applicant's correlative rights will be impaired unless the wells are produced. See Division Memorandum dated August 3, 1990.

FINDING: The evidence shows that an additional well is necessary to produce the remaining recoverable gas reserves in the Morrow formation in Section 19 thereby preventing waste. Approval of the unorthodox well location for the proposed Lusk Deep Unit Well No. 14 and the simultaneous dedication of

Section 19 to this well and the Lusk Deep Unit Wells 1 and 5 will afford Marbob the opportunity to produce the recoverable Morrow reserves under this section thereby protecting its correlative rights. Marbob Energy Corporation has therefore produced compelling evidence in support of its application for the simultaneous dedication of the Lusk Deep Unit Wells 1, 5, and 14 the application should be **granted**.

IT IS THEREFORE ORDERED THAT:

(1) The application of Marbob Energy Corporation ("Marbob") for authorization to simultaneously dedicate its Lusk Deep Unit Well No. 1 located 660 feet from the North and East lines (Unit A), its Lusk Deep Unit Well No. 5 located 1980 feet from the South and East lines (Unit J), and its proposed Lusk Deep Unit Well No. 14 to be drilled at a location 1650 feet from the North line and 990 feet from the West line (Unit E), all in Section 19, Township 19 South, Range 32 East, NMPM, to form a standard 643.47-acre spacing and proration unit comprised of Section 19 in the Lusk-Morrow Gas Pool is hereby **granted**.

PROVIDED HOWEVER THAT, within one year following the completion of the Lusk Deep Unit Well No. 14, Marbob Energy Corporation shall file an application with the Division for Special Pool Rules and Regulations for the Lusk-Morrow Gas Pool which provide for multiple wells on the spacing and proration units in this pool. Marbob shall present geological and engineering data in support of this application at the Division hearing on this application which includes the information acquired from the drilling of the Lusk Deep Unit Well No. 14.

PROVIDED FURTHER THAT, if these Special Pool Rules and Regulations for the Lusk-Morrow Gas Pool are not adopted by the Division, Marbob shall immediately file an application to reopen this case for the entry of such further orders as may be required by the data acquired from the drilling of the Lusk Deep Unit Well No. 14.

(2) An unorthodox well location for the Lusk Deep Unit Well No. 14 located 1650 feet from the North line and 990 feet from the West line of Section 19, Township 19 South, Range 32 East, NMPM, Lea County, New Mexico is hereby **approved**.

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(3) Jurisdiction of this case 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

LORI WROTENBERY
Director

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