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JASON KELLAHIN (RETIRED 1991)

January 27, 2000

HAND DELIVERED

Mr. Mark Ashley, Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

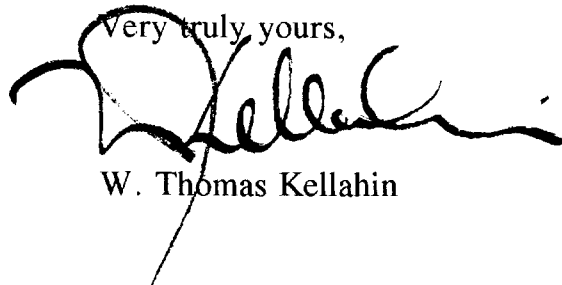
Re: *NMOCD Case No. 12296*
Application of Burlington Resources
Oil & Gas Company to amend Rule 7 of
the Basin Fruitland Coal Gas Pool Rules
New Mexico.

Dear Mr. Ashley:

On behalf of Burlington Resources Oil & Gas Company, please find enclosed a proposed order for entry in the referenced case heard on January 20, 2000.

I have also enclosed a wordperfect 5.1 diskette which contains a copy of the draft order.

Very truly yours,



W. Thomas Kellahin

cc: *Burlington Resources Oil & Gas Company*
Attn: Alan Alexander

**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. 12296
Order No. _____**

**APPLICATION OF BURLINGTON RESOURCES
OIL & GAS COMPANY TO AMEND RULE 7 FOR
THE SPECIAL RULES AND REGULATIONS FOR
THE BASIN-FRUITLAND COAL GAS POOL,
RIO ARriba, SANDOVAL, McKINLEY AND
SAN JUAN COUNTIES, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 20, 2000, at Santa Fe, New Mexico, before Examiner Mark Ashley.

NOW, on this ____day of January, 2000, 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) Burlington Resources Oil & Gas Company ("Burlington") seeks an order of the Division amending Rule 7 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool to change the well location boundary requirements from not closer than 790 feet to not closer than 660 feet to any outer boundary of a spacing unit and from not closer than 130 feet to not closer than 10 feet to any quarter-quarter section line or subdivision inner boundary and to add well locations requirements for federal exploratory units.

(3) Burlington is the operator of approximately 908 wells currently producing from the Basin-Fruitland Coal Gas Pool.

(4) In compliance with Division notice rules, Burlington sent approximately 51 copies of its application including its proposed rules and notice of hearing to operators in the Basin Fruitland Coal Gas Pool. Notice of this case was also published in the newspaper and on the Division's hearing docket which is mailed to approximately 300 operators in New Mexico.

(5) The Basin-Fruitland Coal Gas Pool is currently governed by the "Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool" including Rule 7 which pertains to well spacing and location requirements which are set forth as follows:

"Rule 7. The first well drilled or recompleted on every standard or non-standard unit in the Basin-Fruitland Coal Gas Pool shall be located in the NE/4 or the SW/4 of a single governmental section and shall be located no closer than 790 feet to any outer boundary of the proration unit nor closer than 130 feet to any quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary."

(6) One of the most effective and efficient current means of drilling and producing new coal gas wells is to do so as wellbores which can also be used to produce gas from other formations including the Mesaverde and Pictured Cliffs formations.

(7) In order to increase the opportunity to locate wells in the optimum position or to accommodate numerous topographic and archeological conditions, it is either necessary to process numerous cases for unorthodox well locations or to relax the exterior and interior footage setback requirements.

(8) The current well location requirements for wells in the Basin-Fruitland Gas Pool are not the same as the current well location regulations for wells in the Blanco-Mesaverde Gas Pool or the Pictured Cliffs pools.

(9) Effective February 1, 1999, Division Order R-10987-A amended the Blanco-Mesaverde Gas Pool Rules to (a) change the initial and infill well location boundary requirements from not closer than 790 feet to not closer than 660 feet to any outer boundary of a quarter section and (b) from not closer than 130 feet to not closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(10) In addition, effective August 31, 1999, the Division entered Order R-11231 which, among other things, amended the well location requirements for certain gas wells spaced on "statewide spacing rules" so they could be located not closer than 660 feet to an outer boundary and not closer than 10 feet to an interior quarter-quarter section line.

(11) As a result of the different well location requirements for each of these pools, the drilling of a Mesaverde well or a Pictured Cliffs at a standard location can be unorthodox in the Fruitland Coal Gas Pool.

(12) These differences require both the Division and the operator to process administrative non-standard location applications for the Basin-Fruitland Coal Gas wells when that well is to be downhole commingled or dual completed with production from the Blanco Mesaverde or Blanco Pictured Cliffs Pools.

(13) These differences require both the Division and the operator to process administrative non-standard location applications for the Basin-Fruitland Coal Gas wells which otherwise are not necessary.

(14) To the best of Burlington's knowledge, few, if any, of the administrative applications filed to obtain unorthodox coal gas well locations closer than 790 feet but not closer than 660 feet to the outer boundary of the quarter section have either been protested or denied.

(15) It is an unnecessary administrative burden on both the operators and the Division to process this type coal gas well location exception for which there has been few if any objections.

(16) It is in the best interests of conservation to establish uniform well locations requirements for the gas producing formations currently spaced on 160-acre and 320-acre gas spacing units in the Northwestern portion of New Mexico.

(17) Burlington submitted technical evidence which demonstrated that:

(a) the over pressured area of the pool:

(i) has been substantially developed;

(ii) the original reservoir pressure of the over pressured area of the pool was 1600 psi. The current reservoir pressure in the prolific fairway is now under 600 psi for the majority of the wells; and

(iii) there is little opportunity to impair correlative rights in the over pressured area by relaxing the well locations footage requirements for this area.

(b) for the under pressured area of the pool:

(i) because wells drilled in this area are expected to marginal, future development can be economically accomplished if the same well bore is used to produce this pool in combination with other pools.

(ii) there is little opportunity to impair correlative rights in the under pressured area by relaxing the well locations footage requirements for this area.

(iii) in order to increase the recovery of gas from this area it is necessary to locate wells in the optimum position to drain those additional reserves and it will be necessary to process numerous cases for unorthodox well locations or relax the exterior and interior footage setback requirements.

(iv) relaxing the footage setbacks will not impair correlative rights due to the low reservoir permeability, approximately 0.3 md, and low reservoir pressure, less than 600 psi. Due to the very low reservoir permeability, 320 acres reservoir drainage is less likely than in the over pressured coal area and in the economically marginal areas of the under pressured coal area is unlikely to exceed 160 acres. Any potential adverse impact that may occur to offsetting GPUs by relaxing the footage setback requirements may be accelerated by only

a few months during which time those operators will have an opportunity to best chose when and where to locate their own wells.

(18) Accordingly, the Division should amend the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool to modify well location requirements as follows:

"Rule 7. Well Location Requirements:

- (a) Wells drilled or recompleted within the Basin-Fruitland Coal Gas Pool shall be located in the NE/4 or the SW/4 of a single governmental section and shall be located no closer than 660 feet to any outer boundary of a spacing unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.
- (b) Wells located within federal exploratory units shall not be closer than 10 feet to any section, quarter section or interior quarter-quarter section line or subdivision inner boundary, except that wells located within one-half mile of the outer boundary of any such unitized area shall not be closer than permitted by subparagraph (a) above."

(19) In accordance with Division Order R-11205, effective July 15, 1999, copies of this application have been sent to all operators in the pool.

(20) The Division finds that adopting Burlington's proposed well location "footage" setback proposal will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Effective on the first day of the month following the issuance of this order, the Rules and Regulations of the Basin Fruitland Coal Gas Pool are hereby amended to conform to the rule changes as set forth in Exhibit "A" attached hereto and made part of this order.

(2) 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 hereinafter designated.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

LORI WROTENBERY, DIRECTOR

**EXHIBIT "A"
ADOPTED RULE CHANGES**

"Rule 7. Well Location Requirements:

- (a) Wells drilled or recompleted within the Basin-Fruitland Coal Gas Pool shall be located in the NE/4 or the SW/4 of a single governmental section and shall be located no closer than 660 feet to any outer boundary of a spacing unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.
- (b) Wells located within federal exploratory units shall not be closer than 10 feet to any section, quarter section or interior quarter-quarter section line or subdivision inner boundary, except that wells located within one-half mile of the outer boundary of any such unitized area shall not be closer than permitted by subparagraph (a) above."