



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

February 16, 2000

Dugan Production Corporation
P. O. Box 420
Farmington, New Mexico 87499-0420

Attention: Kurt H. Fagrelius



Re: Application for location exception.
Carpenter Com. Well No 90
1767' FSL & 280' FWL (Unit L)
Sec. 25-T30N-R14W, NMPM,
Basin-Fruitland Coal (Gas) Pool,
San Juan County, New Mexico.

Dear Mr. Fagrelius:

Reference is made to the following: (i) your application dated January 10, 2000; (ii) the New Mexico Oil Conservation Division's ("Division") initial response by letter dated January 18, 2000 from Mr. Michael E. Stogner, Engineer in Santa Fe; (iii) your re-submittal of this application dated January 27, 2000; (iv) the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, dated October 17, 1988, as amended by Division Orders No. R-8768-A, dated July 16, 1991, and R-8768-B, dated February 10, 2000 (see copy attached); and (v) the records of the Division.

Section 70-2-11, NMSA 1978, of the Oil and Gas Act ("Act") empowered the Division to prevent waste and to protect correlative rights. In order to carry out this assignment Section 70-2-12 directed the Division to make rules, regulations, and orders that: (i) require wells to be drilled, operated, and produced in such a manner as to prevent injury to neighboring leases or properties; and (ii) fix the spacing of wells. The placement of oil and gas wells is the single most elementary and fundamental aspect of oil and gas conservation law. Another way this is effectively accomplished is through prorationing. The Basin-Fruitland Coal (Gas) Pool is an unprorated gas pool where: (i) production allowables are not issued; (ii) operators are allowed to produce their wells at unrestricted rates of flow; and (iii) the only method employed to protect correlative rights is by controlling well density and locations. Further, when the Basin-Fruitland Coal (Gas) Pool was formed special rules were adopted that served to assure that an efficient and effective pool-wide plan of development was instituted.

After meticulous review of your application the Division finds that the requested unorthodox location for Dugan Production Corporation's Carpenter Com. Well No. 90, being only 280 feet from Section 26, Township 30 North, Range 14 West, NMPM, San Juan County, New Mexico, is considered to be a correlative rights violation. The reason being that this proposed location severely encroaches the SE/4 of Section 26 which lands would be included in either a standard 320-acre stand-up gas spacing and proration unit comprising the E/2 of Section

Dugan Production Corporation

February 16, 2000

Page 2

26 or a lay-down unit comprising the S/2 of Section 26 for Basin-Fruitland Coal (Gas) Pool development. In either case the S/2 SE/4 of Section 26 would be included in either 320-acre unit. The S/2 SE/4 of Section 26 being fee acreage is entitled to 25% of the royalty interest from any future coal gas production to the standard 320-acre unit assigned. Therefore, this offsetting 320-acre area where the 25% fee acreage is adversely affected by this encroachment.

Further, it is our understanding that Dugan Production Corporation's policy to stay a minimum of 500 feet from existing deeper wells is to avoid damaging wells and/or the coal gas productive interval. Then, drilling and completing a well 280 feet to a property line will consequently have the same adverse affects to this neighboring property (SE/4 of Section 26) thereby complicating the correlative rights issue even further.

Finally, any company policy that goes against Division rules and procedures, especially if that policy results in the violation of correlative rights and/or creates waste, can not under any circumstances supersede the rules set forth.

Since there are locations within the SW/4 of Section 25 available to Dugan Production Corporation that are considered to be "standard coal gas well locations" pursuant to revised Rule 7 of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," your application is hereby **denied**.

Your application brought to light some interesting observations that would be good to bring up at the Basin-Fruitland Coal (Gas) Pool study committee.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Aztec
Mr. Steve Salzman - U. S. Bureau of Land Management, Santa Fe
Mr. Neel McBride - U. S. Bureau of Land Management, Farmington
Ms. Kathy Valdes, NMOCD - Santa Fe
Ms. Lori Wrotenbery, Director - NMOCD, Santa Fe

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. R-8768-B

APPLICATION OF BURLINGTON RESOURCES OIL & GAS COMPANY TO
AMEND RULE (7) OF THE SPECIAL RULES AND REGULATIONS FOR THE
BASIN-FRUITLAND COAL GAS POOL, RIO ARRIBA, MCKINLEY,
SANDOVAL AND SAN JUAN COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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

NOW, on this 10th day of February, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) Burlington Resources Oil & Gas Company ("Burlington") seeks an order of the Division to amend Rule (7) of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool to change the well location requirements for wells in this pool and to add well location 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 copies of its application, including its proposed rules and notice of hearing, to approximately 51 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) By Order No. R-8768, issued in Case No. 9420 and dated October 17, 1988,

the Division created, defined, and promulgated temporary Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, including provisions for 320-acre gas spacing and proration units and designated well locations. The horizontal limits for this pool currently comprise all or portions of the following described area in San Juan, McKinley, Sandoval and Rio Arriba Counties, New Mexico:

Township 19 North, Ranges 1 West through 6 West, NMPM;
Township 20 North, Ranges 1 West through 8 West, NMPM;
Township 21 North, Ranges 1 West through 9 West, NMPM;
Township 22 North, Ranges 1 West through 11 West, NMPM;
Township 23 North, Ranges 1 West through 14 West, NMPM;
Township 24 North, Ranges 1 East through 16 West, NMPM;
Township 25 North, Ranges 1 East through 16 West, NMPM;
Township 26 North, Ranges 1 East through 16 West, NMPM;
Township 27 North, Ranges 1 West through 16 West, NMPM;
Township 28 North, Ranges 1 West through 16 West, NMPM;
Township 29 North, Ranges 1 West through 15 West, NMPM;
Township 30 North, Ranges 1 West through 15 West, NMPM;
Township 31 North, Ranges 1 West through 15 West, NMPM; and
Township 32 North, Ranges 1 West through 13 West, NMPM.

(6) By Order No. R-8768-A, issued in Case No. 9420 and dated July 16, 1991, the Division amended Rules No. (3), (4), (5) and (6), and continued all other provisions contained in Order No. R-8768 until further order of the Division.

(7) Rule (7) of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool currently states:

"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 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."

(8) Burlington testified that one of the most effective and efficient means of drilling and producing new coal gas wells is to commingle production from other formations including the Mesaverde formation in the same wellbore.

(9) The current well location requirements for wells in the Basin-Fruitland Coal Gas Pool are not the same as the current well location requirements for wells in the Blanco-Mesaverde Gas Pool.

(10) By Order No. R-10987-A, issued in Case No. 12069 and dated February 1, 1999, the Division amended the Blanco-Mesaverde Gas Pool rules to include, among other things, the following:

(a) wells drilled in this pool shall be located not closer than 660 feet to the outer boundary of the 320-acre gas spacing unit and not closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary; and

(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.

(11) As a result of the different well location requirements for each of these pools, a Mesaverde well at a standard gas well location may be unorthodox in the Basin-Fruitland Coal Gas Pool.

(12) Additionally, the current well location requirements for wells in the Basin-Fruitland Coal Gas Pool are not the same as the current well location requirements for gas wells spaced on 320-acres under statewide spacing rules.

(13) By Order No. R-11231, issued in Case No. 12119, dated August 12, 1999 and made effective August 31, 1999, the Division amended the well location requirements for gas wells spaced on 320-acres under statewide spacing rules to require wells to be located no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(14) Burlington proposes that Rule (7) of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool be amended 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 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 paragraph (a) above."

(15) Burlington presented technical evidence demonstrating that:

(a) the Basin-Fruitland Coal Gas Pool can be subdivided into an over-pressured area and an under-pressured area;

(b) the over-pressured area is located in the north central portion of the pool and currently comprises all or portions of the following described area in San Juan and Rio Arriba Counties, New Mexico:

Township 29 North, Ranges 5 West through 8 West, NMPM;
Township 30 North, Ranges 4 West through 9 West, NMPM;
Township 31 North, Ranges 5 West through 10 West, NMPM;
and
Township 32 North, Ranges 5 West through 12 West, NMPM;

(c) nearly all of the acreage in the over-pressured area has been developed and adequately drained. The area drained by individual wells in the over-pressured area of the pool is approximately 320 acres;

(d) initial completions in the over-pressured area experienced reservoir pressures of approximately 1600 psi; currently new completions experience reservoir pressures

of between 400 and 500 psi;

(e) permeability in the over-pressured area is approximately 4.5 millidarcies;

(f) because the over-pressured area has essentially been developed and the reservoir pressure has decreased substantially, relaxing the setback requirements in the over-pressured area will not violate correlative rights;

(g) the under-pressured area includes the remainder of the acreage in the Basin-Fruitland Coal Gas Pool;

(h) the under-pressured area is not fully developed and is the area of primary concern for future development under the proposed setback changes. The area drained by individual wells in the under-pressured area of the pool is approximately 160 acres;

(i) initial completions in the under-pressured area experienced reservoir pressures of less than 600 psi; currently new completions experience reservoir pressures of between 200 and 300 psi;

(j) permeability in the under-pressured area is approximately .3 millidarcies;

(k) relaxing the setback requirements in the under-pressured area will not violate correlative rights because wells drain approximately 160 acres, permeability is approximately .3 millidarcies, and the current reservoir pressure has decreased substantially.

(16) Adopting Burlington's proposal to relax the footage setbacks of the pool will serve the best interests of conservation, prevent waste, protect correlative rights and provide workable, fair and efficient regulation of well locations.

(17) In order to increase the opportunity to locate wells in the optimum position and avoid processing numerous applications for unorthodox well locations, Burlington's request to relax the exterior and interior footage setback requirements within the Basin-

Fruitland Coal Gas Pool should be approved.

(18) Burlington did not present sufficient data outlining the existing federal exploratory units and participating areas and their relationship to adjoining proration units. Additionally, Burlington did not present evidence and testimony justifying why the existing setback requirements and the NE/4 SW/4 development pattern are not the most orderly form of development for existing federal exploratory units and participating areas within the Basin-Fruitland Coal Gas Pool.

(19) Burlington's request to apply the proposed development pattern and setback requirements to federal exploratory units and participating areas has the potential to drain proration units that are not within a participating area of a federal exploratory unit, does not promote conservation and may violate correlative rights. It should therefore be denied.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Burlington Resources Oil & Gas Corporation ("Burlington"), Rule (7) of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool is hereby amended as follows:

Rule 7. Wells 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 SW/4 of a single governmental section and shall be located no closer than 660 feet to any outer boundary of the proration unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.

(2) Burlington's request to apply the relaxed setback requirements to federal exploratory units is hereby denied.

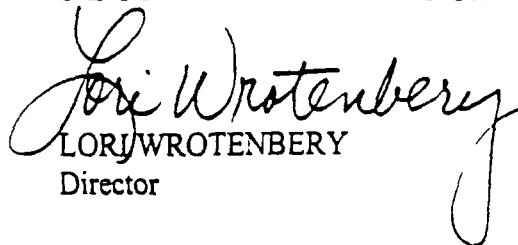
(3) All other provisions of Order No. R-8768, as amended, shall remain in full force and effect until further notice.

(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

Case No. 12296
Order No. R-8768-B
Page 7

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director

SEAL



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

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

January 18, 2000

Dugan Production Corporation
P. O. Box 420
Farmington, New Mexico 87499-0420

Attention: Kurt H. Fagrelus



Re: Application for location exception.
Carpenter Com. Well No 90
1767' FSL & 280' FWL (Unit L)
Sec. 25-T30N-R14W, NMPM,
Basin-Fruitland Coal (Gas) Pool,
San Juan County, New Mexico.

Dear Mr. Fagrelus:

Reference is made to the following: (i) your application dated January 10, 2000 to the New Mexico Oil Conservation Division ("Division"); (ii) the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended; and (iii) the Division's records in Santa Fe. I am returning the subject application as incomplete since insufficient information was submitted to justify the drilling of this well at an off-pattern/unorthodox coal gas well location within the proposed 320.36-acre stand-up gas spacing and proration unit, comprising Lots 4 and 5, the NW/4, and the N/2 SW/4 (W/2 equivalent) of Section 25.

Should Dugan Production Corporation ("Dugan") wish to pursue this matter further, please explain in detail and show on larger scaled plats why all other possible standard locations within the SW/4 equivalent of Section 25 are not available to Dugan, including, in particular, the placement of this well on either of the two existing well pads:

- (1) Dugan's Carpenter Well No. 1 (API No. 30-045-09178), located 1730 feet from the South line and 1800 feet from the West line (Unit K) of Section 25, which is currently producing from the Basin-Dakota Pool; or
- (2) Dugan's old plugged and abandoned Carpenter Well No. 2 (API No. 30-045-22772), located 1460 feet from the South line and 1850 feet from the West line (Unit K) of Section 25.

Staking the proposed Carpenter Com. Well No. 90 on an existing well pad would serve to minimize surface resource damage and/or avoid the "topographic conditions" mentioned in your application.