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June 12, 2001

Via Fax and U.S. Mail

David Catanach
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case 12537 (Kerr-McGee Oil & Gas Onshore LLC)

Dear Mr. Catanach:

I have reviewed your figures regarding reclassification of the Conoco State well unit to marginal GPU status. I have a couple of questions based on how the rules are interpreted. The rules state in part:

Rule 13(a)(1): After the production data is available for the last month of each classification period, any GPU which had an **underproduced** status at the **beginning** of the allocation period shall be reclassified to marginal if its highest single month's production during the classification period is less than its average monthly allowable during such period; **however**, the operator of any GPU so classified ... shall have 30 days after receipt of notification of marginal classification in which to submit satisfactory evidence to the Division that the GPU is not of marginal character and should not be so classified.

Based on your figures, the GPU became marginal by April 1, 2000. However, the GPU was overproduced on October 1, 1999, and thus it seems that Rule 13(a)(1) does not apply to the October 1, 1999 - March 31, 2000 allocation period. The GPU was underproduced on April 1, 2000, so shouldn't the pertinent classification period be April 2000 - June 2000?

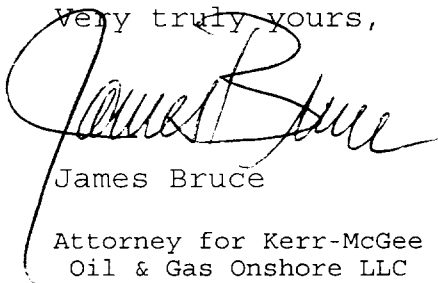
Kerr-McGee never received notification from the Division of reclassification of the GPU to marginal status, but if it had it could have proven that the GPU was non-marginal. In April 2000 it completed the No. 6 well, and in June 2000 it completed the No. 7

well, which combined were capable of producing in excess of the monthly allowable. (The allowable was limited to 124,000/month due to the unorthodox location of the No. 2 well.) Thus, as of the last month of the classification period (June 2000), the GPU started producing in excess of its allowable. However, Kerr-McGee could not make up underproduction due to production curtailment imposed by Marathon at the Indian Basin Gas Plant beginning prior to that time. These matters were testified to at the hearing.

Based on the above, Kerr-McGee believes that the Conoco State well unit was non-marginal. In addition, it never received notification of reclassification to marginal status. Thus, it urges approval of the application in the above case.

Please call me if you have any questions.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James Bruce". The signature is written in dark ink and is positioned above the printed name "James Bruce".

James Bruce

Attorney for Kerr-McGee
Oil & Gas Onshore LLC

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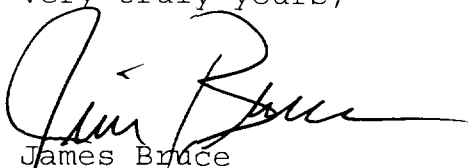
Dear Mr. Catanach:

I have taken the liberty of drafting a proposed order on the above matter, and it is enclosed on hard copy and disk.

I believe that Kerr-McGee has commenced, or will soon commence, its Well No. 4, which was referenced at hearing. In the interim, Kerr-McGee wants to make sure that the well unit is not changed to marginal. If it needs to do anything to ensure the status of the unit as non-marginal, please let me know.

Please call me if you have any questions.

Very truly yours,



James Bruce

Attorney for Kerr-McGee
Oil & Gas Onshore LLC

STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED
CALLED BY THE OIL CONSERVATION DIVISION
FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF KERR-MCGEE OIL & GAS ONSHORE
LLC TO EXTEND THE TIME DURING WHICH IT MAY
MAKE UP UNDERPRODUCTION IN A GAS PRORATION
UNIT IN THE INDIAN BASIN-UPPER PENNSYLVANIAN
GAS POOL, EDDY COUNTY, NEW MEXICO.

No. 12537
ORDER NO. R-_____

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on November 16, 2000 at Santa Fe, New Mexico before Examiner David R. Catanach.

NOW, on this _____ day of May, 2001, 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) Kerr-McGee Oil & Gas Onshore LLC ("Kerr-McGee") seeks an order allowing it until March 31, 2002 during which to make up underproduction in a gas proration unit in the Indian Basin-Upper Pennsylvanian Gas Pool comprised of Lots 1-4, S $\frac{1}{2}$ N $\frac{1}{2}$, and S $\frac{1}{2}$ (all) of irregular Section 2, Township 22 South, Range 23 East, N.M.P.M.

(3) Kerr-McGee is the operator of the Conoco State well unit, comprising all of Section 2, containing 674.28 acres of state lands. Production from the well unit is governed by the General Rules for the Prorated Gas Pools of New Mexico, set forth in Division Order No. R-8170, as amended. Kerr-McGee seeks an additional year to make up underproduction of 487,525 MCF which accrued through March 31, 2000.

(4) The following wells are located on Section 2:

<u>Well</u>	<u>Completion Date</u>	<u>Status</u>
Conoco State No. 1	10/65	P&A (6/00)
Conoco State No. 2	7/95	TA (9/00)
Conoco State No. 3	4/98	SWD (Devonian)

Conoco State No. 6	4/00	Active
Conoco State No. 7	6/00	Active

(5) The production history of the Conoco State well unit is as follows:

- (a) During the pertinent time period, the allowable for the well unit was approximately 4.1 MMCF/day due to a production penalty imposed as a result of the unorthodox location of the Conoco State Well No. 2. However, the well unit was capable of producing in excess of 5 MMCF/day.
- (b) The Conoco State well unit became overproduced beginning in 1996, and production was restricted from January 1998 until mid-1999 to make up the overproduction.
- (c) In July 1999 gas production in the Indian Basin field was curtailed due to maximum gas processing capacity being reached at the Indian Basin Gas Plant.
- (d) When production from the Conoco State well unit became balanced, Kerr-McGee sought to increase production. However, the Conoco State Well No. 2 began making water, and could not produce at the same rates it had produced prior to being restricted.
- (e) As a result, Kerr-McGee drilled the Conoco State Well Nos. 6 and 7 to increase production. In addition, the Conoco State Well No. 2 was TA'd. When that was done, the allowable for the well unit increased to an unpenalized rate of 6.9 MMCF/day. **See Division Administrative Order NSL-4386-A(SD).**
- (f) Kerr-McGee has plans to drill the Conoco State Well No. 4 in order to further increase production from the well unit.
- (g) Due to curtailment procedures at the Indian Basin Gas Plant, Kerr-McGee would not be able to produce in excess of the allowable to make up overproduction during the period April 2000 - March 2001. However, with additional plant capacity, Kerr-McGee should be able to make up the underproduction in the future.

(6) The testimony showed that the Upper Pennsylvanian reservoir in this area is a dolomite body averaging 300-400 feet in thickness. The reservoir thickness and other reservoir characteristics are relatively uniform across the well unit. The

Conoco State Well Nos. 6 and 7, which are approximately 2200 feet apart, show no production interference. In addition, the Conoco State Well No. 7 was drilled as a producer approximately 150 feet from the P&A's Conoco State Well No. 1, which produced 40 BCF of gas. Thus, offset wells, which will be over 3000 feet from the wells in the Conoco State well unit, will not be adversely affected by granting the relief sought herein.

(7) All operators in the Indian Basin-Upper Pennsylvanian Gas Pool were notified of the application filed herein, and Kerr-McGee further spoke with all operators in the pool about this matter. No operator objects to the relief requested in this case.

(8) Granting the application will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Kerr-McGee Oil & Gas Onshore LLC for additional time during which to make up underproduction in a gas proration unit in the Indian Basin-Upper Pennsylvanian Gas Pool comprised of Lots 1-4, S $\frac{1}{2}$ N $\frac{1}{2}$, and S $\frac{1}{2}$ (all) of irregular Section 2, Township 22 South, Range 23 East, N.M.P.M. is hereby approved.

(2) The applicant is granted until March 31, 2002 to make up underproduction of 487,525 MCF which accrued during the period ending March 31, 2000.

(3) 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 date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

[Seal]