

**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. 12786
ORDER NO. R-11714**

**APPLICATION OF MATADOR OPERATING COMPANY FOR AN
UNORTHODOX GAS WELL LOCATION AND SIMULTANEOUS
DEDICATION, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 10, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 15th day of January, 2002, 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) The applicant, Matador Operating Company ("Matador"), seeks approval for an unorthodox gas well location for its Mershon Gas Com Well No. 2 (API No. 30-015-31404) located 415 feet from the North line and 1201 feet from the West line (Unit D) of Section 21, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, which is to be completed in the Indian Basin-Upper Pennsylvanian Gas Pool. The applicant further seeks authority to simultaneously dedicate the Mershon Gas Com No. 2, and its existing Mershon Gas Com Well No. 1 (API No. 30-015-20241) located 990 feet from the North and East lines (Unit A) of Section 21, to a previously approved 360-acre non-standard gas spacing and proration unit comprising the N/2 and the N/2 N/2 N/2 S/2 of Section 21 (approved by Division Order No. R-3737, as amended.)

(3) Affected offset operators Chevron Texaco and Kerr-McGee Oil & Gas Onshore, L.L.C. ("Kerr-McGee") appeared at the hearing through legal counsel.

(4) The Mershon Gas Com No. 2 is located within the Indian Basin-Upper Pennsylvanian Gas Pool. This pool is currently a prorated gas pool governed by Division Rule 605 and the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*" as established by Division Order No. R-8170, as amended, which require standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(5) At the hearing, Matador requested that the portion of its application seeking approval to simultaneously dedicate the existing 360-acre gas spacing and proration unit to the Mershon Gas Com Wells No. 1 and 2 be dismissed. In support of this request, Matador testified that the Mershon Gas Com Well No. 1 is uneconomic to produce, and that the Mershon Gas Com Wells No. 1 and 2 will not be produced simultaneously within the Indian Basin-Upper Pennsylvanian Gas Pool.

(6) The applicant presented evidence that demonstrates:

- (a) the Mershon Gas Com No. 1 has drained a small area within the subject non-standard gas proration unit and is substantially depleted;
- (b) there are remaining gas reserves underlying the subject non-standard gas proration unit that cannot be recovered by the existing Mershon Gas Com No. 1;
- (c) water encroachment from the east in this gas reservoir will ultimately adversely affect gas production from this proration unit;
- (d) geologic and topographic factors were considered by Matador in locating the Mershon Gas Com No. 2 at the proposed unorthodox location;
- (e) the Mershon Gas Com No. 2 was drilled at the unorthodox gas well location described above in order to penetrate the Upper Pennsylvanian formation in an area of high structural position and reservoir thickness; and

(f) a well at the proposed unorthodox gas well location will provide Matador the opportunity to recover the remaining gas reserves underlying the subject proration unit.

(7) Kerr-McGee is the operator of the affected offset acreage in Section 17, and Chevron Texaco is the operator of the affected offset acreage in Section 16, both in Township 22 South, Range 23 East, NMPM.

(8) As part of a settlement with Kerr-McGee and Chevron Texaco, Matador has agreed that a production penalty of 59.3% (40.7% allowable) should be imposed on the Mershon Gas Com No. 2.

(9) The proposed production penalty, which was calculated utilizing a productive acreage factor and a well encroachment factor, is to be applied against a standard 640-acre non-marginal gas allowable for the Indian Basin-Upper Pennsylvanian Gas Pool.

(10) The proposed production penalty is reasonable, will protect the correlative rights of Kerr-McGee and Chevron Texaco, and should be adopted for the Mershon Gas Com No. 2.

(11) Approval of Matador's application, subject to a production penalty of 59.3%, will provide Matador the opportunity to recover additional gas reserves from Section 21, and is, accordingly, necessary to prevent waste. Such approval will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Matador Operating Company for approval of an unorthodox gas well location for its Mershon Gas Com No. 2 (API No. 30-015-31404) located 415 feet from the North line and 1201 feet from the West line (Unit D) of Section 21, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, Indian Basin-Upper Pennsylvanian Gas Pool, is hereby approved. This well shall be dedicated to an existing 360-acre non-standard gas spacing and proration unit comprising the N/2 and the N/2 N/2 N/2 S/2 of Section 21.

(2) The Mershon Gas Com No. 2 is hereby assessed a production penalty of 59.3% (40.7% allowable) in the Indian Basin-Upper Pennsylvanian Gas Pool. The well shall not be allowed to produce in excess of 40.7% of a standard 640-acre non-marginal gas allowable in the Indian Basin-Upper Pennsylvanian Gas Pool.

(3) The portion of Matador Operating Company's application to simultaneously dedicate the Mershon Gas Com No. 2 and its existing Mershon Gas Com No. 1 (API No. 30-015-20241) located 990 feet from the North and East lines (Unit A) of Section 21, to a previously approved 360-acre non-standard gas spacing and proration unit comprising the N/2 and the N/2 N/2 N/2 S/2 of Section 21, is hereby dismissed.

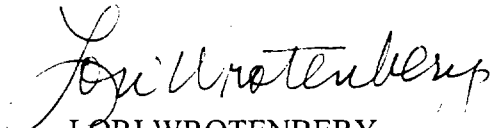
(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


LORI WROTENBERY
Director