

**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:**

**NOMENCLATURE
CASE NO. 12848
ORDER NO. R-11810**

**APPLICATION OF SDX RESOURCES, INC. FOR POOL CREATION AND THE
CONCOMITANT CONTRACTION OF THE RED LAKE QUEEN-GRAYBURG-
SAN ANDRES POOL, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 30, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 15th day of August, 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 Red Lake Queen-Grayburg-San Andres Pool (51300) is a defined pool for the production of oil from the Queen, Grayburg, and San Andres formations. Its horizontal limits as currently designated include the following described area in Eddy County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 27 EAST, NMPM

| | |
|-------------|-------------------------------|
| Section 12: | SE/4 |
| Section 13: | N/2 and SE/4 |
| Section 22: | S/2 NE/4 |
| Section 23: | S/2 NW/4, NE/4 SW/4, and SE/4 |
| Section 24: | E/2, S/2 NW/4, and N/2 SW/4 |
| Section 25: | NE/4 and S/2 |
| Section 26: | S/2 S/2 |
| Section 27: | All |

| | |
|-------------------------|--------------|
| Section 32: | SE/4 |
| Section 33: | NE/4 and S/2 |
| Sections 34 through 36: | All |

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPPM

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|-------------------------|--------------------------------|
| Section 7: | All |
| Section 8: | SW/4 |
| Section 9: | NE/4 NE/4, S/2 NE/4, and SE/4 |
| Section 10: | SW/4 |
| Section 11: | S/2 |
| Section 12: | SW/4 SW/4 |
| Section 14: | W/2 |
| Section 15: | All |
| Section 16: | NE/4 and S/2 |
| Section 18: | W/2 |
| Section 19: | S/2 |
| Sections 20 through 22: | All |
| Section 23: | S/2 NW/4 and S/2 |
| Section 25: | N/2 |
| Section 26: | N/2 |
| Section 27: | N/2 N/2 and SW/4 |
| Section 28: | All |
| Section 29: | * * N/2, N/2 S/2, and S/2 SW/4 |
| Section 30: | All |
| Section 31: | NE/4 NE/4, W/2 E/2, and W/2 |

TOWNSHIP 18 SOUTH, RANGE 26 EAST, NMPPM

| | |
|------------|-----|
| Section 1: | E/2 |
|------------|-----|

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPPM

| | |
|-----------------------|--------------------------------|
| Section 1: | N/2 |
| Section 2: | N/2 and SW/4 |
| Sections 3 through 9: | All |
| Section 17: | N/2 |
| Section 18: | NE/4, N/2 NW/4, and SE/4 NW/4. |

(3) Currently the Red Lake Queen-Grayburg-San Andres Pool is governed by the statewide rules with development on standard 40-acre spacing and proration units each having a top unit depth bracket allowable of 80 barrels of oil per day and a limiting gas/oil ratio of 2,000

cubic feet of gas per barrel of oil which results in a casinghead gas allowable of 160 MCF per day.

(4) The applicant, SDX Resources, Inc., seeks to contract the vertical limits of the Red Lake Queen-Grayburg-San Andres Pool by deleting therefrom the San Andres formation only with respect to the following described 1760.00 acres, more or less, in Eddy County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM

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|-------------|------------------------------------|
| Section 19: | SE/4 |
| Section 20: | E/2, NE/4 NW/4, S/2 NW/4, and SW/4 |
| Section 21: | SE/4 NW/4, SW/4, and W/2 SE/4 |
| Section 28: | NW/4 NE/4, NW/4, and NW/4 SW/4 |
| Section 29: | N/2 |
| Section 30: | NE/4. |

(5) Smith & Marrs, Inc. is the designated operator of the Red Lake Premier Sand Unit (approved by Division Order No. R-938, issued in Case No. 1184 on January 16, 1957). The Red Lake Premier Sand Unit, which embraces the same area as SDX's proposed new San Andres pool, is a voluntary unit comprising State (480.00 acres or 27.27 %) and Federal (1280.00 acres or 72.73 %) lands created for the purpose of initiating and conducting secondary recovery operations (see Division Order No. R-568, issued in Case No. 789 on January 13, 1955).

(6) The Red Lake Premier Sand Unit and associated waterflood project operated by Smith & Marrs, Inc. is confined to the Premier Sand member of the Grayburg formation, which is an interval approximately 20 feet in thickness immediately above the San Andres formation.

(7) SDX owns all of the rights to develop the oil and gas in the San Andres formation under the area described in Finding Paragraph No. (4) above, but is precluded from doing so while it is considered part of the Red Lake Queen-Grayburg-San Andres Pool. In accordance with Division procedures, only one operator within a single spacing and proration unit is permitted to operate within a pool.

(8) SDX has identified an oil-producing horizon in the San Andres formation that covers the proposed area and proposes to develop this acreage by drilling and completing 25 wells.

(9) In order to afford SDX an opportunity to drill and produce wells in the San Andres formation within the area described in Finding Paragraph No. (4) above it is necessary

to contract the vertical limits of the Red Lake Queen-Grayburg-San Andres Pool.

(10) Adequate notice was provided pursuant to Division Rule 1207.A, and no interested party appeared at the hearing in opposition to this application.

(11) A new pool classified as an oil pool for San Andres production within the area described in Finding Paragraph No. (4) above should be created and designated the Red Lake-San Andres Pool, with vertical limits to include the San Andres formation, identified as being from a depth of 1925 feet to 3500 feet on the Schlumberger Three Detector Litho Density Compensated Neutron Log of SDX's Welch "RL" State Well No. 1 (API No. 30-015-31916), located 2310 feet from the North line and 430 feet from the West line (Unit E) of Section 28, Township 17 South, Range 28 East, NMPM, Eddy County, New Mexico.

(12) Approval of this application is in the best interest of conservation, will serve to promote the orderly development of the San Andres formation, will allow the applicant the opportunity to economically recover its share of oil and gas in the subject area in a prudent manner, and will otherwise serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The vertical limits of the Red Lake Queen-Grayburg-San Andres Pool (51300) in Eddy County, New Mexico, as heretofore classified, defined, and described, are hereby contracted to delete the San Andres formation from underneath the following-described area in Eddy County, New Mexico:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM

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|-------------|------------------------------------|
| Section 19: | SE/4 |
| Section 20: | E/2, NE/4 NW/4, S/2 NW/4, and SW/4 |
| Section 21: | SE/4 NW/4, SW/4, and W/2 SE/4 |
| Section 28: | NW/4 NE/4, NW/4, and NW/4 SW/4 |
| Section 29: | N/2 |
| Section 30: | NE/4. |

(2) Concomitantly, a new pool in Eddy County, New Mexico, classified as an oil pool for San Andres production only, is hereby created and designated the Red Lake-San Andres Pool, with vertical limits comprising the entire San Andres formation and horizontal limits comprising the following-described area:

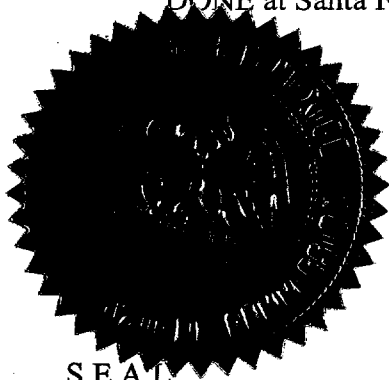
TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM

| | |
|-------------|------|
| Section 19: | SE/4 |
|-------------|------|

| | |
|-------------|------------------------------------|
| Section 20: | E/2, NE/4 NW/4, S/2 NW/4, and SW/4 |
| Section 21: | SE/4 NW/4, SW/4, and W/2 SE/4 |
| Section 28: | NW/4 NE/4, NW/4, and NW/4 SW/4 |
| Section 29: | N/2 |
| Section 30: | NE/4. |

(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
LORI WROTENBERY
Director