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February 26, 2003

Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 12932/Ocean Energy, Inc./non-standard unit

Dear Mr. Stogner:

Enclosed is a proposed order (hard copy and disk) in the above matter. Your attention to this matter is appreciated.

Very truly yours,


James Bruce

Attorney for Ocean Energy, Inc.

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FEB 26 2003

Oil Conservation Division

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. 12932
ORDER NO. R- _____

APPLICATION OF OCEAN ENERGY, INC. FOR
A NON-STANDARD GAS SPACING AND PRORATION
UNIT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 19, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of March, 2003, 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, Ocean Energy, Inc. ("Ocean"), seeks an order approving a non-standard gas spacing and proration unit in the Saladar-Strawn Gas Pool comprised of the SE $\frac{1}{4}$ of Section 28, Township 20 South, Range 28 East, N.M.P.M. The unit will be dedicated to Ocean's existing Burton Flat Deep Unit Well No. 13 (API No. 30-015-21125), located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 28.

(3) The Saladar-Strawn Gas Pool is developed on the Division's statewide rules, with standard 320 acre well units.

(4) Ocean is the operator of the Burton Flat Deep Unit Area, which currently covers the following described acreage in Eddy County, New Mexico:

Township 20 South, Range 28 East, N.M.P.M.
Section 26: W $\frac{1}{2}$
Section 27: All
Section 28: SE $\frac{1}{4}$
Section 33: E $\frac{1}{2}$
Section 34: All
Section 35: W $\frac{1}{2}$

Township 21 South, Range 27 East, N.M.P.M.

Section 2: Lots 1-16, N $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SW $\frac{1}{4}$, and SE $\frac{1}{4}$

Section 3: All

Containing 4,191.12 acres, more or less.

The Unit Agreement covers all depths below the top of the Delaware Sandstone. The unit was approved by Oil Conservation Commission Order No. R-4371.

(5) The Burton Flat Deep Unit Well No. 13 was originally completed in the Morrow formation, and the S $\frac{1}{2}$ of Section 28 was dedicated to the well. The well subsequently ceased producing from the Morrow formation, and under the terms of the Unit Agreement the SW $\frac{1}{4}$ of Section 28 was contracted out of the unit, and the lease covering the SW $\frac{1}{4}$ of Section 28 expired.

(6) The Burton Flat Deep Unit Well No. 13 was recompleted in the Strawn formation on May 24, 2001, and the Division approved a Form C-104 for the well on August 26, 2001.

(7) After the Burton Flat Deep Unit Well No. 13 was recompleted in the Strawn formation, Ocean applied to the Bureau of Land Management ("BLM") and the Commissioner of Public Lands ("Commissioner") to create a Strawn participating area for the well. The BLM and the Commissioner determined that the well was non-commercial, and refused to create a Strawn participating area for the well.

(8) Under the Unit Operating Agreement, all working interest owners in the Unit Area shared in the cost of drilling the well, and they all share in production from the well. Therefore, if a non-standard unit is not approved, the equities of the parties who paid for the well will be adversely affected.

(9) The SE $\frac{1}{4}$ of Section 28 is comprised of State of New Mexico Oil and Gas Lease L-6322. If a non-standard unit is approved, under the Unit Agreement the state will be entitled to 100% of the royalties from the well.

(10) No offset operator appeared at the hearing in opposition to the application. Yates Petroleum Corporation, the current working interest owner in the SW $\frac{1}{4}$ of Section 28, waived objection to the proposed non-standard unit.

(11) In order to prevent waste and protect correlative rights, a non-standard gas spacing and proration unit should be established for the Burton Flat Deep Unit Well No. 13 in the Saladar-Strawn Gas Pool, effective as of the date of first production from the Strawn

formation.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Ocean Energy, Inc., a non-standard gas spacing and proration unit in the Saladar-Strawn Gas Pool, comprised of the SE $\frac{1}{4}$ of Section 28, Township 20 South, Range 28 East, N.M.P.M., is approved. The unit will be dedicated to applicant's existing Burton Flat Deep Unit Well No. 13, located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of the section. Approval is effective as of the date of first production from the Strawn formation.

(2) Applicant shall file a Form C-102 with the Division reflecting the non-standard unit within 30 days from the date of this order.

(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]