

BEFORE THE

OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION
OF ENSERCH EXPLORATION, INC.
FOR THE ASSIGNMENT OF A SPECIAL POOLWIDE
DEPTH BRACKET OIL ALLOWABLE,
ROOSEVELT COUNTY, NEW MEXICO.

NOV 8 1993

CONSERV.

CASE NO. 10994
ORDER NO. R-5771-B

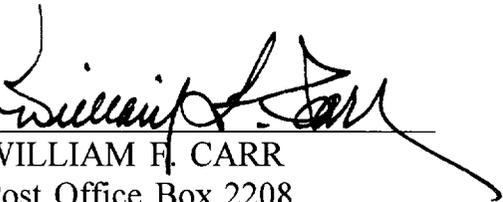
APPLICATION FOR HEARING DE NOVO

ENSERCH EXPLORATION, INC. a party of record adversely affected by the decision of the Oil Conservation Division herein, hereby applies for a hearing De Novo before the full Commission, pursuant to N.M.Stat.Ann. § 70-2-13 (1987 Repl.).

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.

By:


WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR ENSERCH
EXPLORATION, INC.

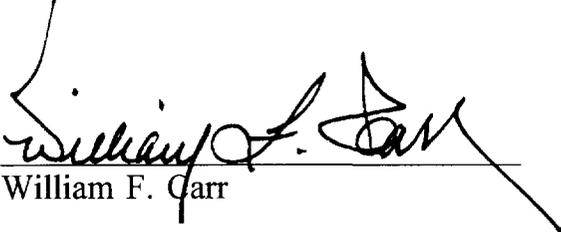
CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application for Hearing De Novo was mailed this 8th day of November, 1994 to the following:

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504

Phillips Petroleum Company
4001 Penbrook
Odessa, TX 79762

Bledsoe Petroleum Corporation
c/o Bledsoe Partners, Inc.
3908 North Peniel, Suite 500
Bethany, OK 73008



William F. Garr

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ENRCH

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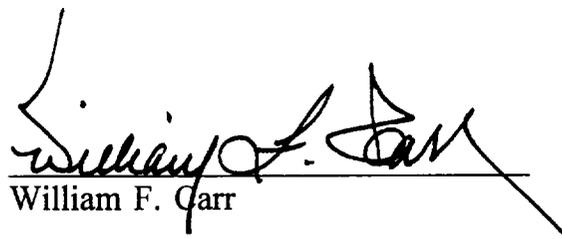
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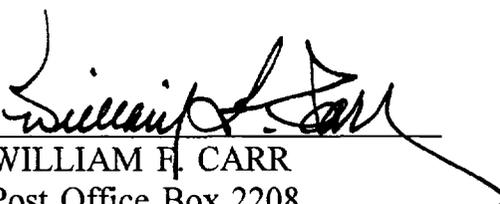
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3908 North Peniel, Suite 500
Bethany, OK 73008



William F. Carr

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

May 8, 1995

Mr. William J. LeMay
Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87502

HAND DELIVERED

Mr. Gary Carlson
Office of Commissioner of Public Lands
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

HAND DELIVERED

Mr. William Weiss
New Mexico Petroleum Recovery
Research Center, Kelly Building
New Mexico Tech Campus
Socorro, New Mexico 87801

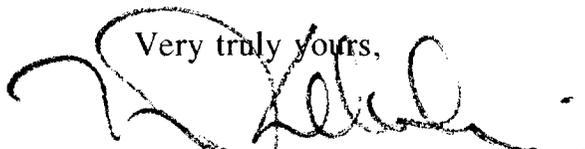
FEDERAL EXPRESS

Re: ***APPLICATION FOR RE-HEARING***
NMOCD Case No. 10994 (DeNovo) Commission Order R-9771-C
Application of Enserch Exploration Inc. for adoption of a
special oil allowable for the South Peterson-Fusselman Oil Pool,
Roosevelt County, New Mexico

Dear Members of the Commission:

On behalf of Phillips Petroleum Company, we request that the enclosed Application for Rehearing be set for hearing on the July, 1995 Commission hearing docket. In accordance with Section 70-2-25 NMSA (1978), should the Commission decide to reopen this matter as requested in this Application for Rehearing then you are required to grant this request within a ten-day period which expires on Thursday, May 18, 1995.

Very truly yours,


W. Thomas Kellahin

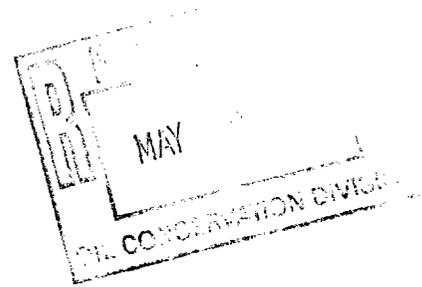
cc: with Enclosures:

William F. Carr, Esq.

Attorney for Enserch

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

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



**CASE NO. 10994 (DeNovo)
ORDER NO. R-9771-C**

**APPLICATION OF ENSERCH EXPLORATION INC.
FOR THE ADOPTION OF A SPECIAL OIL ALLOWABLE
FOR THE SOUTH PETERSON-FUSSELMAN OIL POOL,
ROOSEVELT COUNTY, NEW MEXICO**

**APPLICATION FOR REHEARING
BY
PHILLIPS PETROLEUM COMPANY**

This Application for Re-Hearing is submitted by W. Thomas Kellahin, Esq. of Kellahin and Kellahin and by Reese B. Copeland, Esq. of Phillips Petroleum Company on behalf of PHILLIPS PETROLEUM COMPANY (Phillips").

In accordance with the provisions of Section 70-2-25 NMSA (1978), Phillips requests the New Mexico Oil Conservation Commission grant this Application for ReHearing in Case 10994 (DeNovo) to correct erroneous findings and conclusions set forth in Order R-9771-C, attached as Exhibit "A" and to substitute Phillips' proposed Commission Order attached as Exhibit "B" hereto, and IN SUPPORT PHILLIPS STATES:

INTRODUCTION

On April 18, 1995, the New Mexico Oil Conservation entered its decision in this case which reversed the prior Division decision made in this case by Examiner Michael E. Stogner.

In doing so, the Commission made errors of fact and of law which require that another hearing be held. In addition, new data has become available since the Commission hearing which alter the findings and conclusions made by the Commission and which therefore require another hearing.

GROUNDS FOR REHEARING

POINT I:

THERE IS NEW EVIDENCE NOT AVAILABLE AT THE TIME OF THE COMMISSION HEARING WHICH WILL CHANGE THE RESULT OF ORDER R-5771-C.

The result of Order R-5771-C is to award Enserch for the application of modern technology (high volume submersible pumping equipment to lift oil and water--"HVL") based upon the Commission's belief that the facts then showed that:

(a) Phillips had tried the same technology and was "able to use the available reservoir energy, a natural water drive, to increase the oil rate in both of their wells and thus protected their correlative rights" (see Finding (10) of Order R-5771-C); and

(b) Enserch using this same technology would "be able to improve the efficiency of oil recovery from their well."

The impact of Order R-5771-C, unless modified upon Rehearing, will be a loss to Phillips of an estimated 159,000 barrels of remaining recoverable oil from this pool, thereby impairing its correlative rights in violation of the New Mexico Oil and Gas Act.

Subsequent to the Commission hearing, Phillips has obtained new production data upon which petroleum engineering studies were conducted to determine if the Commission's order as set forth in Order R-5771-C will result in the loss of remaining recoverable reserves to Phillips. In addition, based upon this new data, Phillips also has conducted engineering studies to determine if the Commission's order will result in increasing ultimate oil recovery from the pool.

Phillips concludes that the Commission order will not add additional oil recovery from the pool but simply reduces Phillips' share of remaining recoverable oil and increases Enserch's share of remaining recoverable oil.

Phillips has concluded and is prepared to present new evidence that:

(1) REMAINING RECOVERABLE OIL RESERVES:

As of January 1, 1995 there remained 492,000 barrels of recoverable oil in the pool to be recovered by the remaining four wells, three operated by Phillips and one operated by Enserch.

(2) INCREASED DECLINE RATES:

<u>WELLS</u>	<u>BEFORE</u>	<u>AFTER</u>
	<u>ENSERCH OVERPRODUCTION</u>	
Phillips Lambirth "A" Well No. 1	30%	78%
Phillips Lambirth "A" Well No. 2	19%	79%
Phillips Lambirth "A" Well No. 3	11%	56%

(3) PHILLIPS' REMAINING RESERVES:

As of January 1, 1995, Phillips had 191,000 barrels of recoverable oil remaining to be produced provided the pool's oil allowable of 267 BOPD was not increased to 500 BOPD. However, as a result of the Commission's order, Phillips will suffer a loss of 159,000 barrels of remaining recoverable oil:

<u>WELLS</u>	<u>BEFORE</u>	<u>AFTER</u>
	ENSERCH OVERPRODUCTION	
Phillips Lambirth "A" Well No. 1	6,000	1,000
Phillips Lambirth "A" Well No. 2	126,000	23,000
Phillips Lambirth "A" Well No. 3	59,000	8,000
TOTAL:	191,000	32,000 (barrels)

LOSS OF 159,000 barrels of recoverable oil

(4) ENSERCH'S REMAINING RESERVES:

As of January 1, 1995, Enserch had 300,000 barrels of recoverable oil remaining in addition to the 980,000 barrels of oil it had already recovered provided the pool's oil allowable of 267 BOPD was not increased to 500 BOPD. As a result of the Commission's order, Enserch will receive a "windfall" gain of 159,000 barrels of remaining recoverable oil:

<u>WELL</u>	<u>BEFORE</u> <u>HVL</u>	<u>WITH INTERMEDIATE HVL</u> <u>(267-ALLOWABLE)</u>	<u>WITH HVL</u> <u>(500-ALLOWABLE)</u>
Enserch's Lambirth Well No.1	270,000	300,000	460,000
TOTAL:			

GAIN OF 160,000 barrels of recoverable oil

(5) ENSERCH'S DRAINAGE AREAS:

The drainage areas for Enserch Lambirth Well No. 1 will be substantially increased as a result of the Commission Order:

<u>RECOVERY FACTOR</u>	<u>ALLOWABLE 267 BOPD</u>	<u>ALLOWABLE 500 BOPD</u>
40 %	187 acres	210 acres
45 %	166 acres	186 acres
50 %	149 acres	167 acres

Increasing the oil allowable allows Enserch to increase its drainage area an additional 18 to 23 acres depending upon the recovery factor.

(6) PHILLIPS' PROPOSED EXHIBITS:

In the event a Rehearing is granted, Phillips' would present new evidence to support the above conclusions including the following which are attached to this Application:

Phillips Lambirth A-1

Graph #1: best fit decline rate over last four years is 29.8%
remaining reserves = 5,663 BO

Graph #2: declined rate since third quarter-1994
has been 78% (remaining reserves=1,169 BO)

Phillips Lambirth A-2

Graph #3: Decline rate since HVL installed in this well has
been 19% with remaining reserves=125,800 BO

Graph #4: Decline rate for this well of 79% with remaining
reserves=10,688 BO after Enserch installed HVL .

Graph #5: A larger HVL pump was then installed in this well in the fourth quarter-1994 to meet the Enserch pump size which reduced net reserve loss to Enserch but still declined at a rate of 79%

Phillips Lambirth A-3

Graph #6: Decline rate before Enserch HVL is 10.7% with remaining reserves = 59,367 BO

Graph #7: Decline rate for this well of 56% with remaining reserves of 7,674 BO after Enserch installed HVL

Enserch Lambirth No. 1:

Graph #8: Decline rate before HVL

Graph #9: Decline rate after intermediate HVL

Graph #10: Decline rate after large HVL

POINT II:

THE COMMISSION FAILED TO MAKE AN ESSENTIAL JURISDICTIONAL FINDING CONCERNING PREVENTION OF WASTE

Although Finding (8)(f) of Order R-5771-C sets forth the contention of Enserch that using this modern technology "would enable Enserch to recover an additional 456,000 barrels of oil that would otherwise be lost", the Commission did not make any finding that this claim by Enserch was adopted by the Commission.

The Commission's failed to make this required statutory finding addressing prevention of waste and thereby ignored the ultimate issue in this case.

This is a simple case. The ultimate factual issue is whether increasing the oil allowable will result in increasing ultimate oil recovery from the entire pool--not just the Enserch well.

Phillips contended that increasing the oil allowable would simply produce the same amount of remaining oil faster and in doing so drain Phillips' spacing units;

Enserch contended that increasing the oil allowable would increase ultimate recovery.

The Commission found that increasing the allowable would improve the efficiency of oil recovery from the Enserch well **BUT** failed to determine if that increase was due simply to accelerated drainage of Phillips' adjoining spacing units or in fact was due to increased total pool recovery.

The New Mexico Supreme Court in Sims v. Mechem, 72 N.M. 186 (1963) held that an Oil Conservation Commission order which did not contain a finding as to existence of waste and its prevention was void. Commission Order R-5771-C omits the jurisdictional findings concerning the prevention of waste as it applies to this case and the evidence to support such a finding. Without such a finding, the Commission was without jurisdiction to enter Order R-5771-C and therefore it is void.

POINT III:

***FINDING (10) INCORRECTLY APPLIES
CORRELATIVE RIGHTS AND IN DOING SO THE
COMMISSION FAILS TO PROTECT CORRELATIVE
RIGHTS***

SPE Paper 7463 theorized that the use of high volume lift installation ("HVL") in a natural water-drive reservoir would result in an apparent increase in oil rate over that expected with conventional lift methods.

While SPE Paper 7463 discussed only increasing rate and recovery for an individual well and expressed no conclusions about

increasing ultimate oil recovery for the pool, both Enserch and Phillips installed submersible pumps and initiated high volume lift ("HVL") in an effort to increase oil recoveries.

As of January 1, 1995, it is estimated that approximately 492,000 barrels of oil remained to be recovered by four wells in the pool.

The Enserch's Lambirth Well No. 1 is at the highest structural portion of the reservoir being some 56 feet and 69 feet, respectively up-dip to the Phillips Lambirth A Well Nos. 1 and 2.

Because the bottom current perforations in these three wells are at the same correlative structural position and because both Phillips and Enserch were using HVL equipment, it was anticipated that the Phillips wells should have been able to protect its spacing units from drainage by Enserch when Enserch increased its oil production rates.

But Phillips' efforts were not successful because the permeability in the bottom perforations in the Enserch well is "tight" while its upper perforations have better permeability and because those upper perforations are also structurally higher than those in the Phillips wells, Enserch is able to increase its oil rate by draining oil from Phillips' adjoining spacing units. And Phillips' despite its efforts to do so cannot protect its spacing units from drainage by Enserch.

The Commission's approval of this unfair "uncompensated net drainage" by Enserch establishes a **new precedent** for the regulation of oil and gas industry in New Mexico.

Prior to the adoption of the Oil & Gas Act, oil and gas operators in New Mexico engaged in the "Rule of Capture" which allowed any operator to produce his oil well at capacity regardless of the adverse effect on either the reservoir or on the correlative rights of his neighbors.

With the adoption of the Oil & Gas Act, New Mexico modified the Rule of Capture and established limits on oil allowables so that a high capacity "Super-Star" well in a common source of supply would not

impair the correlative rights of the owners of the adjoining low capacity wells.

This order is contrary to the New Mexico Oil Gas Act and now allows Enserch's "Super-Star" to produce at such a high rate that it drains a substantial portion of the remaining oil production from Phillips.

This Order established a precedent unique in the field of oil and gas conservation in New Mexico.

POINT IV:

**FINDING (11) IS NOT SUPPORTED BY
SUBSTANTIAL EVIDENCE AND ADOPTS AN
ARBITRARY AND CAPRICIOUS REASON TO
SUPPORT INCREASING THE OIL ALLOWABLE
FOR THIS POOL**

Finding (11) is incorrect and not supported by substantial evidence. Contrary to Finding (11) and apart from the expectations of SPE Paper 7463 and contrary to the results contended by Enserch, the installation of the HVL for the Enserch Lambirth "A" Well No. 1 has resulted in dramatic increases in the water-cut of this well. An examination of Enserch's Exhibit 11 shows that when produced with the rod pump the water-cut was approximately 84% but then dramatically increased to 88% with the use of the large HVL pump.

Apart from the expectations of the SPE Paper 7463 and contrary to the results predicted by Enserch, the installation of the HVL for the Enserch Lambirth "A" Well No 1 has not demonstrated anything except that this is an acceleration in the rate of oil production.

Phillips presented evidence which demonstrated that the increase in the oil allowable will benefit only one well in the pool, the Enserch well, and will cause that higher capacity oil well to drain the oil from the adjoining spacing units which cannot be protected by their existing wells thereby impairing correlative rights.

An oil allowable of greater than 267 BOPD increases the rate of total fluids withdrawn from the Enserch well which creates a pressure differential in the reservoir which increases oil production by draining oil from the down-structure Phillips spacing unit.

All Enserch has demonstrated is that it now has the capacity to dramatically increase its drainage of the Phillips' spacing units.

POINT V:

**FINDING (12) IS NOT SUPPORTED BY
SUBSTANTIAL EVIDENCE AND ADOPTS AN
ARBITRARY AND CAPRICIOUS REASON TO
SUPPORT INCREASING THE OIL ALLOWABLE
FOR THIS POOL**

Finding (12) is not supported by substantial evidence and adopts an arbitrary and capricious reason to support increasing the oil allowable for this pool.

Phillips wells in the pool were drilled approximately seventeen (17) years ago. None of them has experienced collapsed casing.

If Enserch is experience "frequent collapse" of casing in its wells in the area then obviously Enserch has employed inferior drilling and completion methods on their wells causing them to suffer casing collapse.

Phillips should not be penalized for Enserch's poor completion practices.

POINT VI:

**FINDING (13) IS WRONG AND IS NOT SUPPORTED
BY SUBSTANTIAL EVIDENCE AND ADOPTS AN
ARBITRARY AND CAPRICIOUS REASON TO
SUPPORT INCREASING THE OIL ALLOWABLE
FOR THIS POOL**

Finding (13) is wrong and is not supported by substantial evidence and adopts an arbitrary and capricious reason to support increasing the oil allowable for this pool.

Finding (13) confuses "initial water breakthrough" with "current water-oil ratios" and in doing so addresses an irrelevant issue and ignores a critical relevant issue.

What the Commission should have been concerned about was whether all four remaining producing wells during the same period were being affected by water encroachment at the same rate and not whether initial water breakthrough had occurred. The uncontested evidence is that these wells are not being affected equally by water encroachment.

Contrary to Finding (13), Phillips presented detailed geologic and petroleum engineering evidence to demonstrate that structure has a significant effect on well performance and that "water break-through" has not uniformly affected all the remaining wells to the point that that issue can be ignored.

Phillips demonstrated that continuity of the reservoir clearly supports the fact that the production from Enserch's up-structure well has had and will continue to affect the immediate down-structure offsetting Phillips' wells.

The evidence further demonstrated that approval of the increased oil allowable will cause excessive water migration increasing the water-oil ratios which in turn will decrease oil recovery for the down-structure oil wells thereby violating correlative rights by denying Phillips the opportunity to recover its share of the remaining oil.

POINT VII:

***THERE IS NO SUBSTANTIAL EVIDENCE TO
SUPPORT FINDING (14) CONCERNING THE
COMMISSION REASON FOR GRANTING THE
INCREASED ALLOWABLE***

There is no substantial evidence to support Finding (14) as a reasonable basis upon which to grant an increase in oil allowable.

The Commission creates an arbitrary distinction between the point in time when an oil pool produces oil with low water-oil ratios ("clean-oil") from that later period when the wells are experiencing increased water production. Based upon that arbitrary distinction, the Commission decides that it no longer has a duty to protect correlative rights in the later stages of recovery from this pool.

It is not valid for the Commission to allow correlative rights to be violated in a pool with higher water-oil ratios but to seek to protect them only when that pool is in the early stages of production. It is unacceptable to pick some arbitrary point in the life of a pool and then say the Commission will no longer protect correlative rights.

The fact that three of the four wells produce large volumes of water does not mean all wells have equivalent water-oil ratios.

In this pool, the wells still have dramatic differences in water-oil ratios:

Phillips Lambirth "A" Well No 1 = 70 barrels of water/one BO
Phillips Lambirth "A" Well No 1 = 21 barrels of water/one BO
Phillips Lambirth "A" Well No 1 = 0 barrels of water/one BO
Enserch Lambirth Well No 1 = 8 barrels of water/one BO

The Commission is factually wrong when it presumes that these four wells are all virtually "watered out" and are at the same stage of depletion. The Commission is wrong when it fails to protect correlative rights for a pool "in the later stages of pool life."

POINT VIII:

FINDING (15) VIOLATES CORRELATIVE RIGHTS

While Enserch contended that increasing the rate to 500 BOPD allowable would add an additional 456,000 barrels of recoverable oil, Enserch failed to present any supporting data, engineering calculations or other studies to demonstrate it was adding to total pool recovery and that they could do so without harming Phillips.

Under the existing 267 BOPD allowable, the Enserch Lambirth Well No. 1 already has produced 980,000 barrels of oil and has drained 800 acres which amounts to 38% of the total oil in the entire pool while only having 20% of the original oil in place under this spacing unit.

Now of the remaining 492,00 barrels oil yet to be produced, Enserch is to be rewarded by allowing them to produce 159,00 barrels of oil to which Phillips is entitled.

The only way Enserch is adding additional reserves is by taking them from Phillips. The modern technology which the Commission seeks to encourage is nothing more than high capacity drainage of Phillips which until now the Commission has always precluded.

POINT IX:

***ORDER R-5771-C WAS ADOPTED BY THE
COMMISSION BASED UPON AN INCORRECT
UNDERSTANDING OF "BURDEN OF PROOF"***

In its enthusiasm to reward Enserch for "successfully applying modern technology", the Commission improperly shifted the "Burden of Proof" to Phillips to demonstrate that Enserch's application was impairing Phillips' correlative rights.

It is not Phillips' burden to prove that this applicant will harm it. To the contrary, it is the Applicant's Burden of Proof to persuade the Commission that it will not.

The following is presented to guide the Commission in understanding the legal concept of "Burden of Proof." The term "proof" is the end result of conviction or persuasion produced by the evidence. The term encompasses two separate burdens of proof: one is the burden of producing evidence and the second is the burden of persuading the trier of fact that the alleged fact is true.

In this case, the alleged fact is that the approval of this application will prevent waste and protect correlative rights. The Applicant always retains the ultimate burden of producing evidence AND the burden of persuasion of those two basic and fundamental issues. The Applicant's failure to provide evidence of the volume of additional oil which would not otherwise be recovered from the pool; of shift in recoverable reserves between spacing units; of the drainage areas of the wells; or of the decline rates on the wells, is a failure of the Applicant to meet its "Burden of Proof."

It is improper to put the Applicant's failure of proof on the Opponent.

POINT X:

THE COMMISSION VIOLATED THE FASKIN, THE VIKING PETROLEUM AND THE CONTINENTAL OIL CASES WHEN IT FAILED TO ADDRESS AND DECIDE THE OPPONENTS' ISSUES AND OBJECTIONS

The Commission is required to make findings of ultimate facts which are material to the issues and to make sufficient findings to disclose the reasoning of the Commission in reaching its ultimate findings with substantial support in the record for such findings. Fasken

v. Oil Conservation Commission, 87 N.M. 292, 532 P.2d 588 (1975).
Continental Oil Company v. Oil Conservation Commission, 70 N.M.
310, 373 P.2d 809 (1962).

Likewise, in Viking Petroleum v. Oil Conservation Commission, 100 N.M. 451, 453, 672 P.2d 280 (1983), the New Mexico Supreme Court reiterated its opinions in Continental Oil and Fasken, that administrative findings by the Commission should be sufficiently extensive to show the basis of the order and that findings must disclose the reasoning of the Commission in reaching its conclusions.

It is not enough in this case for the Commission to find that Enserch "application of modern technology" will increase the recovery from one well. The Commission needs to articulate its decision on each of the issues which were opposed by Phillips.

The Commission failed to explain why it omitted findings concerning ultimate oil recovery. A rehearing is required, if for no other reason than for the Commission to adopt an adequate order which complies with state law.

POINT XI:

***THE COMMISSION FAILED TO ENFORCE THE
LAWFUL ORDER OF THE DIVISION AND THEREBY
ESTABLISHED A PRECEDENT FOR VIOLATION OF
CORRELATIVE RIGHTS***

Regardless of its decision, the Commission established a precedent when it failed to explain or address the issue of Enserch's violation of Division Order R-5771-B when for more than five (5) months Enserch continued to produce its well at a rate of 550 BOPD despite being limited to only 267 BOPD.

As a result of its overproduction, Enserch has produced an estimated 30,000 barrels of oil in excess of its allowable and to the impairment of Phillips' correlative rights. Now, the Commission excuses the violation of Division Order R-5771-B by making its order retroactive so as to cancel out this overproduction.

With limited resources, the Division operates under the assumption that the oil and gas operators it regulates will voluntarily comply with the rules, regulations and orders of the Division. In this case, Enserch has chosen to ignore a specific order entered by the Division. The Commission has condoned this violation by Enserch and in doing so sends a message to the oil and gas industry that there is no consequences either in terms of fines or penalties for violating Division Orders and Rules.

Violation of Order R-5771-B and the resulting impairment of correlative rights should be referred to the Division Director to institute appropriate fines and/or penalties against Enserch.

The retroactive granting of Enserch's application is contrary to law and violates Phillips' correlative rights.

CONCLUSION

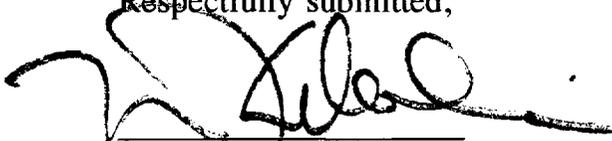
Phillips petitions the Commission to:

- (a) withdraw Order R-5771-C and substitute Phillips' proposed order which is attached hereto as Exhibit "B" and incorporated herein by reference; or in the alternative
- (b) should vacate Order R-5771-C and grant a Rehearing to address:

1. The new evidence issues raised herein, and/or
2. all of the other issues set forth in this Application for Rehearing.

In order to preserve Opponents' right to further appeals of this matter, all of the issues set forth in our proposed Order R-5771-C are made a part of this Application for Rehearing.

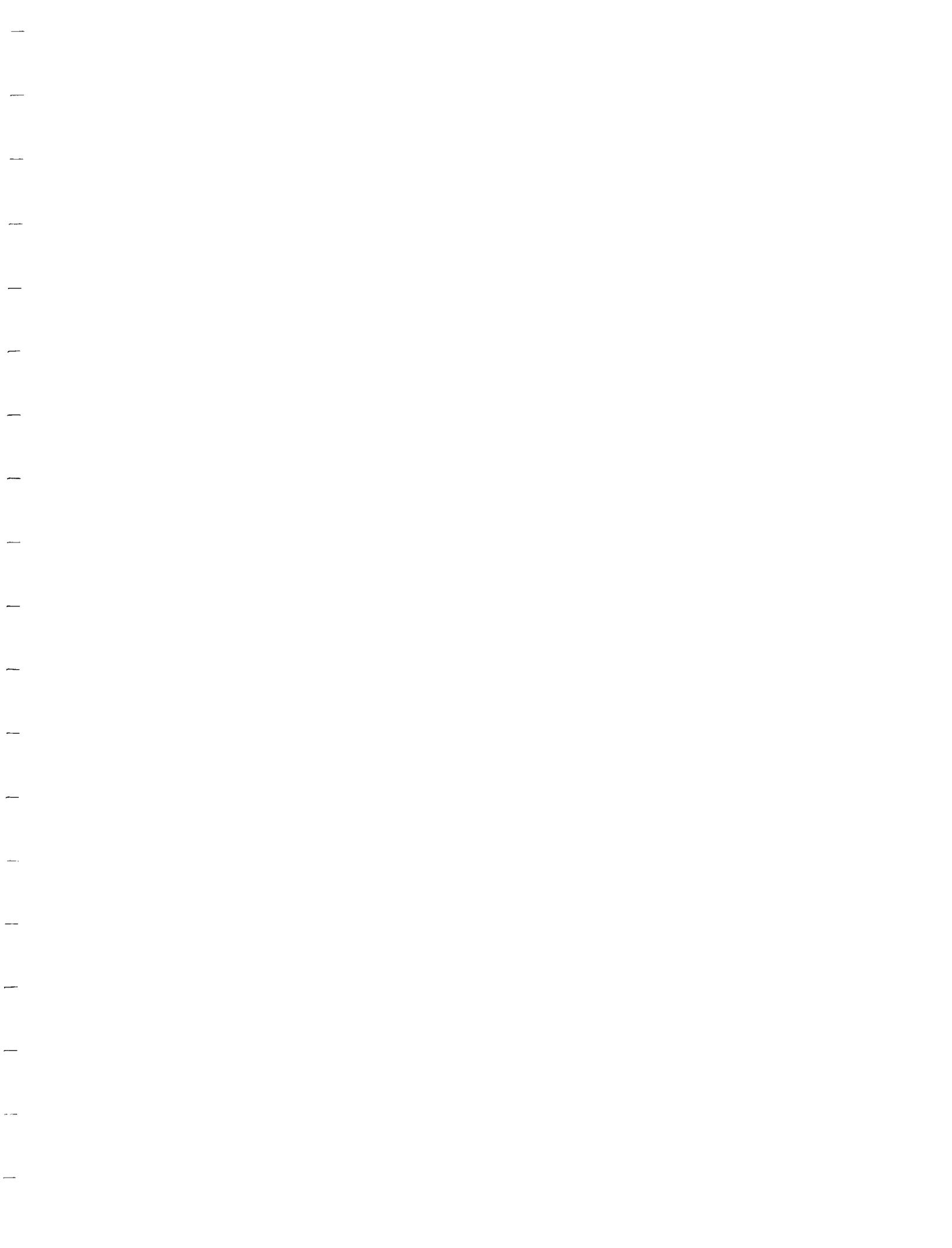
Respectfully submitted,



W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

Reese B. Copeland, Esq.
Phillips Petroleum Company
4001 Penbrook, Suite 216
Odessa, Texas 79762
(915) 368-1278

ATTORNEYS FOR PHILLIPS PETROLEUM COMPANY



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

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

DE NOVO
CASE NO. 10994
ORDER NO. R-5771-C

APPLICATION OF ENSERCH EXPLORATION, INC.
FOR THE ASSIGNMENT OF A SPECIAL POOLWIDE
DEPTH BRACKET OIL ALLOWABLE, ROOSEVELT
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on February 23, 1995, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this 18th day of April, 1995, the Commission, a quorum being present, having considered the testimony and the record, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) By Division Order No. R-5771, dated July 17, 1978, the South Peterson-Fusselman Pool was defined and created for the production of oil from the Fusselman formation. The horizontal limits for said pool included the following described lands in Roosevelt County, New Mexico:

TOWNSHIP 5 SOUTH, RANGE 32 EAST, NMPM

Section 25: SE/4

Section 36: NE/4

TOWNSHIP 5 SOUTH, RANGE 33 EAST, NMPM

Section 30: S/2

Section 31: All

TOWNSHIP 6 SOUTH, RANGE 33 EAST, NMPM

Section 1: Lots 3 and 4
Section 2: All
Section 3: Lots 1 and 2
Section 10: NE/4

(3) Said Order No. R-5771, as amended by Division Order No. R-5771-A, promulgated special rules and regulations for the South Peterson-Fusselman Pool which established 80-acre spacing and proration units and designated well location requirements. This pool is operated under these special rules and regulations and the General Rules of the Division which set a depth bracket allowable for an 80-acre unit of 267 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 534 MCF per day.

(4) The applicant in this matter, Enserch Exploration, Inc. ("Enserch"), now seeks the assignment of a special depth bracket allowable for the South Peterson-Fusselman Pool, pursuant to General Rule 505(d), of 500 barrels of oil per day to replace the current depth bracket allowable for said pool of 267 barrels of oil per day.

(5) There are currently three operators in the subject pool; Enserch, Phillips Petroleum Company, and Bledsoe Petro Corporation.

(6) Phillips Petroleum Company ("Phillips"), who currently operates three wells in said Pool, appeared at the hearing and presented geologic and petroleum engineering evidence in opposition to increasing the oil allowable in the subject Pool.

(7) The Fusselman formation in this pool is a highly fractured fine to coarse crystalline to sucrosic grey dolomite which exhibits a dual porosity system consisting of a fracture system and a matrix system. A strong bottom water drive with an edge water drive component is the reservoir drive mechanism in the South Peterson-Fusselman Pool, which results in wells with high water cuts. Currently there are six wells producing from this pool, one of which is outside of the structural feature being shared by the other five wells all in Section 31, Township 5 South, Range 33 East, NMPM, Roosevelt County, New Mexico.

(8) Evidence presented by Enserch suggests that:

- (a) the Enserch Lambrith Well No. 1, located in Unit "K" of said Section 31 is the best well in the pool because it occupies the highest structural position in the pool and has the best quality of reservoir rock and has the potential to produce at a rate in excess of 500 barrels of oil per day;
 - (b) although structurally up-dip to both Phillips' wells, the Enserch well does not have any advantage because the base of the current perforations in each of these wells is at the same correlative point;
 - (c) the reservoir is in an advanced state of depletion with the oil in the fracture system having been produced and displaced with water and the remaining oil production coming primarily from the matrix;
 - (d) increasing the production rate of total fluids from wells in this pool creates a pressure differential in the reservoir which increases oil production from the matrix and lowers water cuts;
 - (e) Enserch Exhibit No. 9, "SPE paper 7463 presented October 1, 1979 in Houston, Texas at the 53rd Annual Fall Technical Conference and Exhibition of the Society of Petroleum Engineers of A.I.M.E.", showed that from water drive reservoirs in West Texas, high volume lift is an effective means of increasing rates and ultimate recovery. Based upon this technical paper, Enserch theorized that by adding large submersible pumps which could lift 3,000 barrels of fluids per day in certain wells, additional oil recovery could be attained in the Pool.
 - (f) increasing the allowable to 500 barrels of oil per day per well would enable Enserch to recover an additional 456,000 barrels of oil that would otherwise be lost.
- (9) In opposition, Phillips presented evidence which suggests that:
- (a) the aforementioned Enserch Lambrith Well No. 1 is situated at the highest structural portion of the reservoir being 38 feet higher in their perforations at the top of the reservoir;
 - (b) By increasing the oil allowable Enserch would accelerate edge water advancement into the reservoir and water out the Phillips wells prematurely;

- (c) as a result of previous test with the installation of submersible pumps in both the Phillips' wells a dramatic increase in water production was observed and Phillips was not able to achieve the kind of results hypothesized in SPE paper 7463;
- (d) increasing the rate of the oil allowable in this pool would serve to benefit only one well in the pool, the Enserch Lambrith Well No. 1, and will have an adverse effect on the Phillips wells by increasing the rate of water inflow into the Phillips wells because of increased edge water drive caused by the increased pressure differential.

(10) Correlative rights are defined as the opportunity of owners in a pool to produce their share of oil and gas utilizing their share of reservoir energy. Phillips exercised their right to the available reservoir energy in 1992 by installing submersible pumps in their Lambrith A1 and A2 wells. They viewed their effort as unsuccessful even through the oil rate and a proportional amount of water increased in both cases. Phillips was able to use the available reservoir energy, a natural water drive, to increase the oil rate in both of their wells and thus protected their correlative rights.

(11) Enserch demonstrated that with the application of new ideas utilizing proven equipment, they were able to improve the efficiency of oil recovery from their Lambrith #1 Well as evidenced by the decrease in water/oil ratio. They installed high volume pumping equipment which utilized the available reservoir energy more efficiently. However, they did not use the maximum energy available because a large fluid column remained over the pump. The additional drawdown in reservoir pressure resulted in the flow of oil from the reservoir matrix to the natural fracture system where it flowed to the wellbore, thus increasing the percentage of oil produced with a fixed volume of total fluid.

(12) The time remaining to produce the South Peterson Fusselman Pool reserves may be constrained by the frequent collapse of casing in wells in the area. The increase in the oil producing rate by both parties reduces the chance of losing oil reserves due to casing failure and subsequent well abandonment.

(13) The issue of premature water breakthrough was raised during the testimony. However, water breakthrough occurred prior to the installation of high volume pumping equipment and is a non-issue in this case.

(14) Granting a special allowable in this specific case of a naturally fractured reservoir producing large amounts of water from all wells in the later stages of pool life is a different situation than one in which the reservoir is producing clean oil in a competitive situation early in the primary life of a pool. The presence of an oil column over the pump is not sufficient evidence in itself to justify an increase in the allowed rate.

(15) Enserch successfully applied modern technology to increase oil recoveries and should be granted their request for a higher allowable.

IT IS THEREFORE ORDERED THAT:

(1) The application of Enserch Exploration, Inc. for the assignment of a special depth bracket allowable for an 80 acre unit in the South Peterson-Fusselman Pool, Roosevelt County, New Mexico, pursuant to General Rule 505(d), of 500 barrels of oil per day to replace the current depth bracket allowable for said pool of 267 barrels of oil per day is hereby APPROVED effective June 1, 1994.

(2) All other provisions of the Special Rules and Regulations for the South Peterson-Fusselman Pool, as promulgated by Division Order No. R-5771, as amended shall remain in full force and effect until further notice.

(3) Jurisdiction of this cause 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.

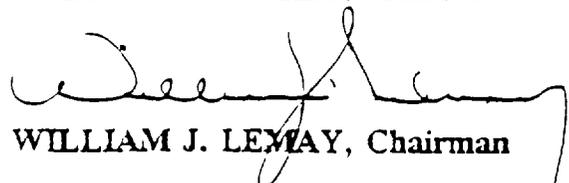
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION



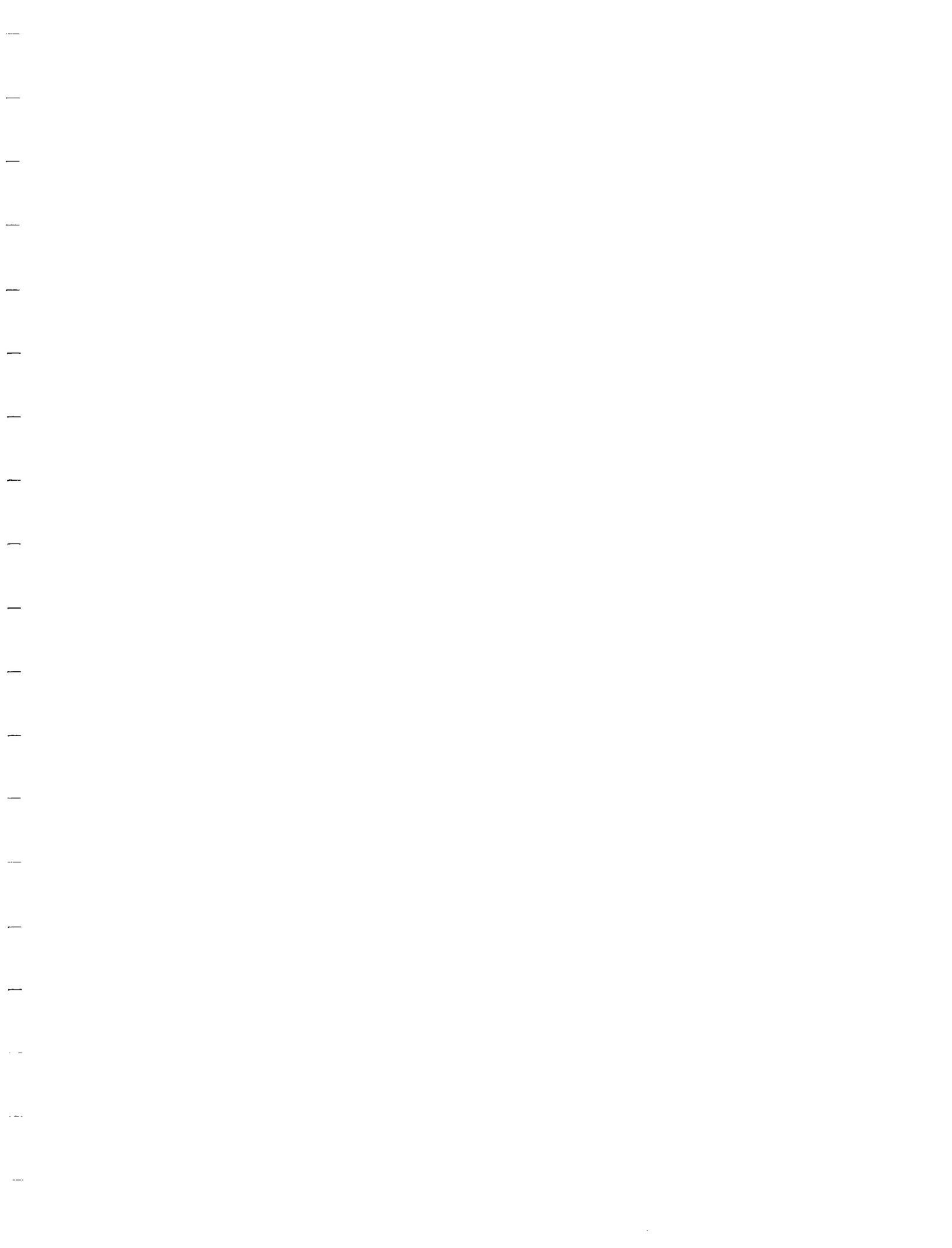
GARY CARLSON, Member



WILLIAM W. WEISS, Member



WILLIAM J. LEMAY, Chairman



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

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

CASE NO. 10994 (DeNovo)
ORDER NO. R-5771-C

APPLICATION OF ENSERCH EXPLORATION, INC.
FOR THE ADOPTION OF A SPECIAL OIL ALLOWABLE
FOR SOUTH PETERSON-FUSSELMAN OIL POOL,
ROOSEVELT COUNTY, NEW MEXICO

**PHILLIPS PETROLEUM COMPANY'S
PROPOSED
ORDER OF THE COMMISSION**

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on February 23, 1995, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission".

NOW, on this ____ May, 1995, the Commission, a quorum being present, having considered the testimony and the record, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) On July 6, 1978, in Case 6270, the Division issued Order R-5771 which granted the application of Enserch Exploration, Inc. ("Enserch") to create the South Peterson-Fusselman Oil Pool ("the Pool") and to establish 80-acre oil proration and spacing units **with** a maximum depth bracket oil allowable of 267 BOPD.

(3) On August 16, 1979, the Division issued Order R-5771-A which made these rules permanent and which have remained unchanged for approximately sixteen years.

(4) There are now only two operators, Enserch Exploration Inc ("Enserch") and Phillips Petroleum Company ("Phillips") and only four wells capable of producing the remaining oil within the same structural feature of this pool all in Section 31, T5S, R33E, NMPM:

Enserch's operated Lambirth Well No 1 (Unit K)
Phillips' operated Lambirth "A" Well No 1 (Unit J)
Phillips' operated Lambirth "A" Well No. 2 (Unit F)
Phillips' operated Lambirth "A" Well No. 3 (Unit N)

(5) That use of high volume lift installation ("HVL") in an Ellenburger, a Devonian and a Strawn reservoir in West Texas, each of which was a natural water-drive reservoir, had resulted in an apparent increase in oil rate than that expected with conventional lift methods. (See Enserch Exhibit 10 "SPE paper 7463 presented October 1, 1979")

(6) While SPE Paper 7463 discussed only oil rate increase and expressed no conclusions about increasing ultimate oil recovery, both Enserch and Phillips installed submersible pumps and initiated high volume lift ("HVL") in an effort to increase ultimate oil recovery of the remaining recoverable oil from this pool.

(7) As of January 1, 1995, it is estimated that approximately 492,000 barrels of oil remained to be recovered by these four wells.

(8) On May 5, 1994, the Division's Supervisory-Hobbs granted Enserch's request for a special twenty (20) day temporary allowable of up to 335 BOPD so that Enserch could produce its well and obtain test data **but** specifically required that:

"if the application for additional allowable is not granted the production from the well will be curtailed back until the overage is made up."

(9) On May 17, 1994, Enserch applied to the Division for an order to increase the maximum daily oil allowable from 267 BOPD to 500 BOPD in the Pool which was docketed as Case 10994 and heard on June 23, 1994.

(10) Phillips appeared at the Division hearing and presented geologic and petroleum engineering evidence in opposition to increasing the oil allowable in the Pool.

(11) On November 3, 1994, the Division entered Order R-5771-B in case 10994 **denying** Enserch's application.

(12) Despite having its application denied and being limited to an oil allowable of 267 BOPD, Enserch continued to produce its Lambirth Well No. 1 in Unit K at an average daily rate of approximately 550 BOPD.

(13) As of the Commission hearing held on February 23, 1995, Enserch had produced an estimated total of 30,000 barrels of oil from its well in excess of its allowable.

(14) Before the Commission and in support of its contention to increase the oil allowable to 500 BOPD, Enserch relied upon the following:

(a) that the Pool is a strong water drive reservoir which produces oil along with significant volumes of salt water;

(b) that the Pool is in an advanced stage of depletion with only four remaining producing wells all located within the same structural feature of the same portion of reservoir;

(c) that although structurally up-dip to both Phillips' wells, the Enserch well does not have any advantage because the base of the current perforations in each of these wells is at the same correlative point.

(d) based upon that SPE paper, Enserch theorized that by adding large submersible pumps which could lift 3,000 total fluids per day, additional recovery could be attained in the Pool.

(e) increasing the allowable to 500 barrels of oil per day would enable Enserch to recover an additional 456,000 barrels of oil that would not be recovered.

(14) In opposition, Phillips presented geologic and petroleum engineering evidence which demonstrated that:

(a) the Enserch's Lambirth Well No. 1 is at the highest structural portion of the reservoir being some 56 feet and 69 feet, respectively, up-dip to the Phillips Lambirth A Well No 1 and the Phillips Lambirth A Well No. 2;

(d) only the Enserch Lambirth Well No. 1 benefits from increasing the oil allowable and that benefit would be at the expense of drainage from the Phillips' adjoining spacing units;

(c) the SPE paper theorized that once wells were experiencing 95% water-cut or greater then any additional recovery generated by increasing withdrawal rates was not enough incremental recovery to be economically attractive;

(d) because the bottom current perforation in these three wells are at the same correlative structural position and because Phillips was using the same sized HVL equipment, then it was anticipated that the Phillips wells should have been able to obtain the increased oil production achieved by Enserch.

(e) but Phillips' efforts were not successful because the permeability in the bottom perforations in the Enserch well is poor ("tight") while upper perforations have better permeability and are also structurally higher than in the Phillips's wells, Enserch is able to increase its oil rate by draining oil from Phillips' adjoining spacing units. (See Phillips' Exhibit 4).

(f) an oil allowable of greater than 267 BOPD increases the rate of total fluids withdrawn from the Enserch well which creates a pressure differential in the reservoir which increases oil production by draining oil from the down-structure Phillips' spacing units.

(g) a plot of the production curve for the Phillips Lambirth A Well No. 1 in October 1992 shows that the installation of a submersible pump resulted in a dramatic increase in the water cut--a result diametrically opposed to and contrary with the Enserch's conclusion;

(h) a plot of the production curve for the Phillips Lambirth A Well No. 2 shows that the installation of a submersible pump in February, 1992 resulted in a dramatic increase in the water cut--a result inconsistent with and contrary to the Enserch's conclusion and expectation;

(i) apart from the expectations of the SPE, and contrary to the results predicted by Enserch (Enserch Exhibit 11), the installation of a HVL for the Enserch Lambirth "A" Well No. 1 has resulted in dramatic increases in the water-cut of this well;

(j) apart from the expectations of the SPE, and contrary to the results predicted by Enserch, the installation of a HVL for the Enserch Lambirth "A" Well No 1 has not demonstrate anything except that this is an acceleration in the rate of oil production;

(k) that increasing the rate of oil allowable will benefit only one well in the pool, the Enserch Lambirth Well No 1 and will cause that higher capacity oil well to drain the oil from the adjoining spacing units including those operated by Phillips which cannot be protected by their existing wells thereby impairing correlative rights;

(l) on July 25, 1979, before the Division in Case 6270 on behalf of Enserch's application to make the Pool rules permanent, Mr. Leonard Kersh, a petroleum engineer for Enserch, testified that the results of a 66-hours extended pressure drawn test, the Enserch Lambirth No 1, caused him to conclude that the well had a contributing pore volume of 17.76 million reservoir barrels which comes out to be an equivalent drainage area of approximately 830 acres;

(m) under the existing 267 BOPD allowable, the Enserch well already has produced 953,358 barrels of oil, 554,119 MCFG and has drained 800 acres; and

(n) the Enserch Lambirth No. 1 well has already produced 38% of the total oil in the entire pool while only having 20% of the original oil in place under this spacing unit.

(8) **Both** Enserch and Phillips presented engineering evidence and testimony to the Commission and, based upon such evidence and testimony, there is substantial evidence to support the following conclusions concerning the South Peterson-Fusselman Pool:

(a) Enserch's data only demonstrates that there is an increase in the daily oil rate **and does not** in fact prove that increase oil rate will increase ultimate oil recovery;

(b) Enserch based its application on a production test but failed to supply any engineering calculations to demonstrate the effect its requested rate of 500 BOPD would have on the drainage patterns for all four wells in the pool;

(c) instead of increasing ultimate recovery from the pool, increasing the oil allowable will simply allow Enserch to drain more of the offsetting spacing units thereby impairing correlative rights with no apparent increase in ultimate oil recovery from the pool;

(d) as a result of increasing the oil allowable from 267 BOPD to 500 BOPD, the primary recovery of oil for the Phillips' wells in Section 31 of Pool would be reduced by 159,000 barrels;

(e) production data indicates that Enserch's high capacity up-dip well is depleting its offsets; and

(f) well test data from the subject wells including actual production data, indicates that higher oil production rate in the Enserch well resulted in higher water-oil ratios. Lowering the oil rates resulted in lower water-oil ratios. With less water produced per barrel of oil, recovery is improved. Enserch presented no test data to prove otherwise. Enserch presented no test data to support 500 BOPD allowables.

(9) Phillips presented detailed geology and petroleum engineering evidence and testimony from which the Commission finds substantial evidence to support the following conclusions:

(a) structure has a significant effect on well performance. Neglecting structural effects and water migration leads to the erroneous conclusion that the potential losses due to higher water/oil production are negligible;

(b) **only** the higher structure, high capacity Enserch Lambirth No. 1 Well is capable of producing in excess of the 267 BOPD allowable. Phillips' structurally lower wells will never be capable of producing at this rate;

(c) continuity of the reservoir clearly supports the fact that production from Enserch's up-structure well will affect the immediate down-structure offsetting wells;

(d) the evidence available at the present time demonstrates that approval of the application will only increase the rate of oil production from one well in the pool; and

(e) the evidence further demonstrated that approval of the application will cause excessive water migration which in turn will decrease ultimate oil recovery for the down-structure oil wells thereby violating correlative rights by denying the operators in the pool the opportunity to maximize their ultimate oil recovery.

(10) Enserch failed to provide any reliable engineering calculations of the volume of additional oil that Enserch contends might be recovered and therefore failed to meet its burden to prove by substantial evidence that waste of hydrocarbons would be prevented.

(11) There is no substantial evidence that the approval of the application will increase ultimate oil recovery.

(12) It appears that correlative rights were impaired by Enserch as a result of its violation of Order R-5771-B and this matter should be referred to the Division Director to consider instituting fines and/or penalties against Enserch.

(13) In addition, Enserch should be ordered to immediately cease all production from the subject Lambirth No. 1 Well and that said well shall be shut-in pending a determination by the Division of the total volume of over-production and how that over-production should be made up.

(14) The application should be DENIED.

IT IS THEREFORE ORDERED THAT:

(1) The application of Enserch Exploration, Inc. for the promulgation of special rules and regulations for an increase in the depth bracket oil allowable from 287 BOPD to 500 BOPD in the South Peterson-Fusselman Pool, Roosevelt County, New Mexico is hereby DENIED.

(2) That Enserch Exploration, Inc. is hereby ordered to immediately shut-in its Lambirth Well No. 1 located in Unit K of Section 31, T5S, R33E, NMPM, Roosevelt County, New Mexico.

(3) That the Director of the Oil Conservation Division shall immediately initiate a hearing to determine the total volume of over-production attributable to the Enserch Exploration Inc.'s Lambirth Well No. 1 and to issue such fines and/or penalties against Enserch Exploration, Inc. as are appropriate.

Case No. 10994
Order R-5771-C
Page 10

(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.

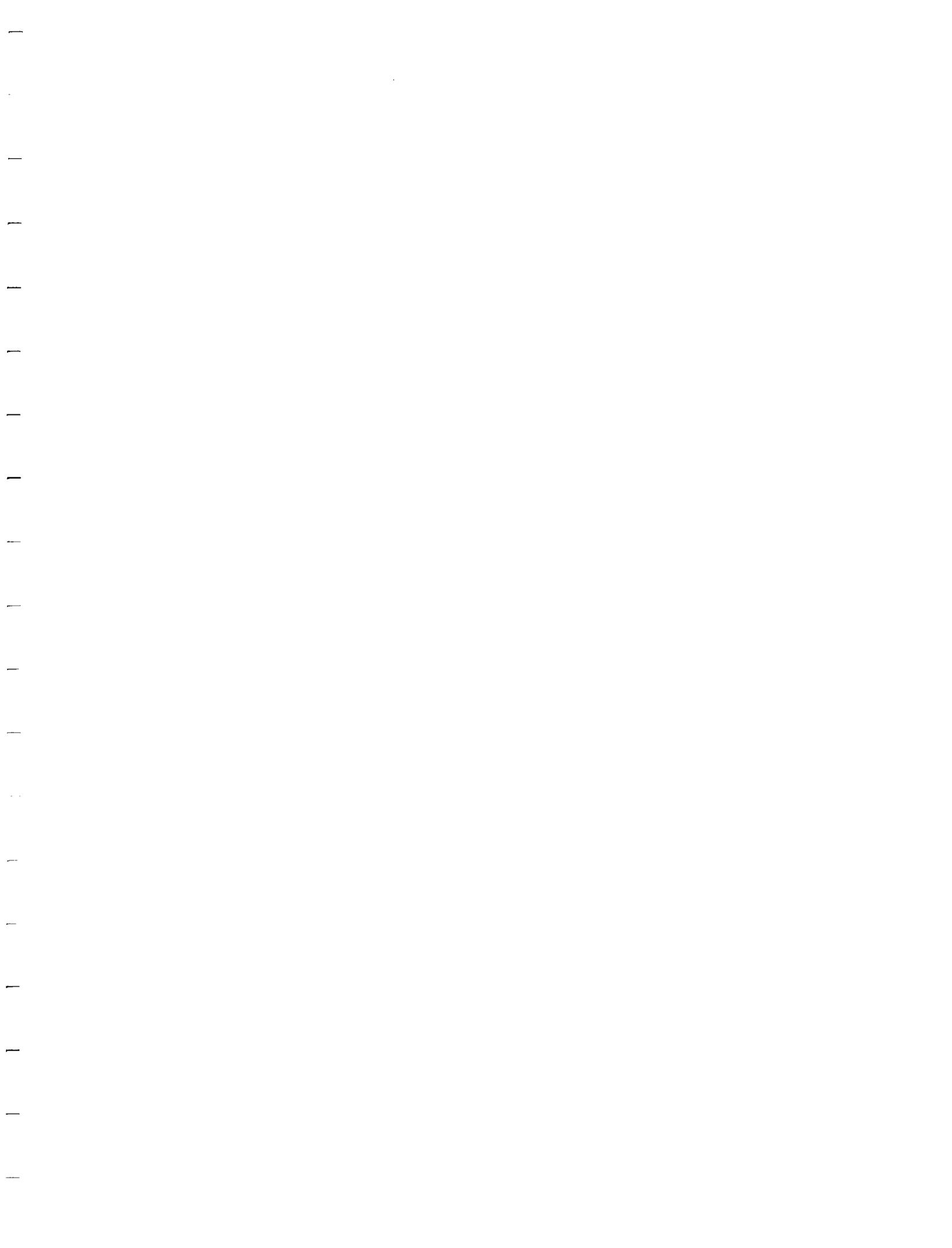
STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

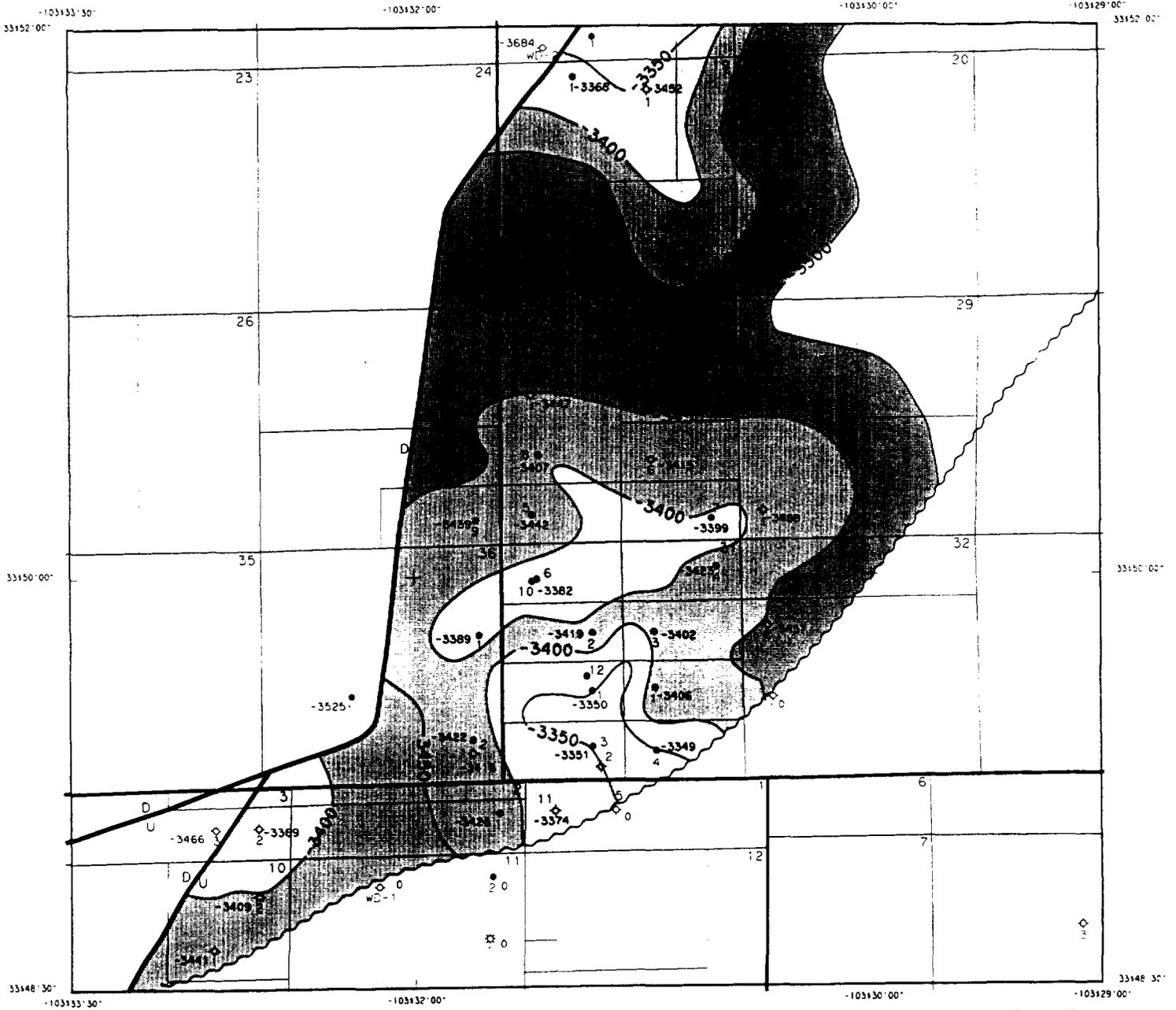
Gary Carlson. Member

William W. Weiss, Member

William J. LeMay, Chairman

seal

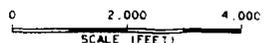


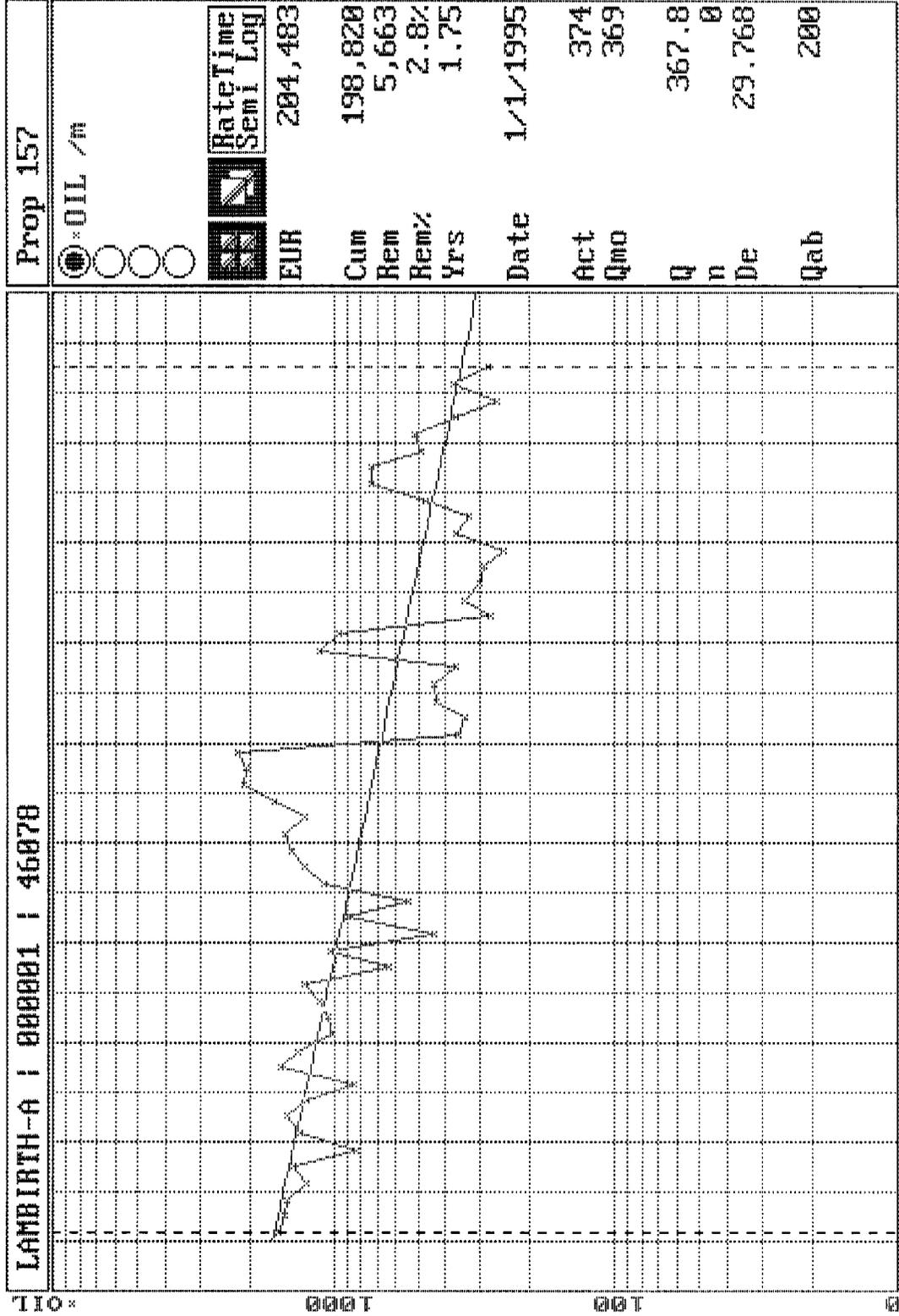


 FAULTS

 EROSIONAL UNCONFORMITY PINCHOUT

BEFORE THE
 OIL CONSERVATION DIVISION
 Case No. 10994 DeNovo Exhibit No. 3
 Submitted By:
 PHILLIPS PETROLEUM
 Hearing Date: February 23, 1995

 PHILLIPS PETROLEUM COMPANY PERMIAN BASIN GEOLOGY			
SOUTH PETERSON FIELD ROOSEVELT CO., NEW MEXICO			
 SCALE (FEET)			
SCALE	1" = 50'	GEOLOGY BY	SCOTT BALKE
DATE	1-95	INSPECTED BY	DOA
CONTOURED ON		TOP OF FUSSEL MAT.	
TYPE INFO		DRAWN BY R. COSSIN	



Prop 157

● OIL /m
○ ○ ○ ○

RateTime
Semi Log

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Cum 198,820
Rem 5,663
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yrs 1.75

Date 1/1/1995

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Q 367.8
n 0
De 29.768

Qab 200

Major = OIL

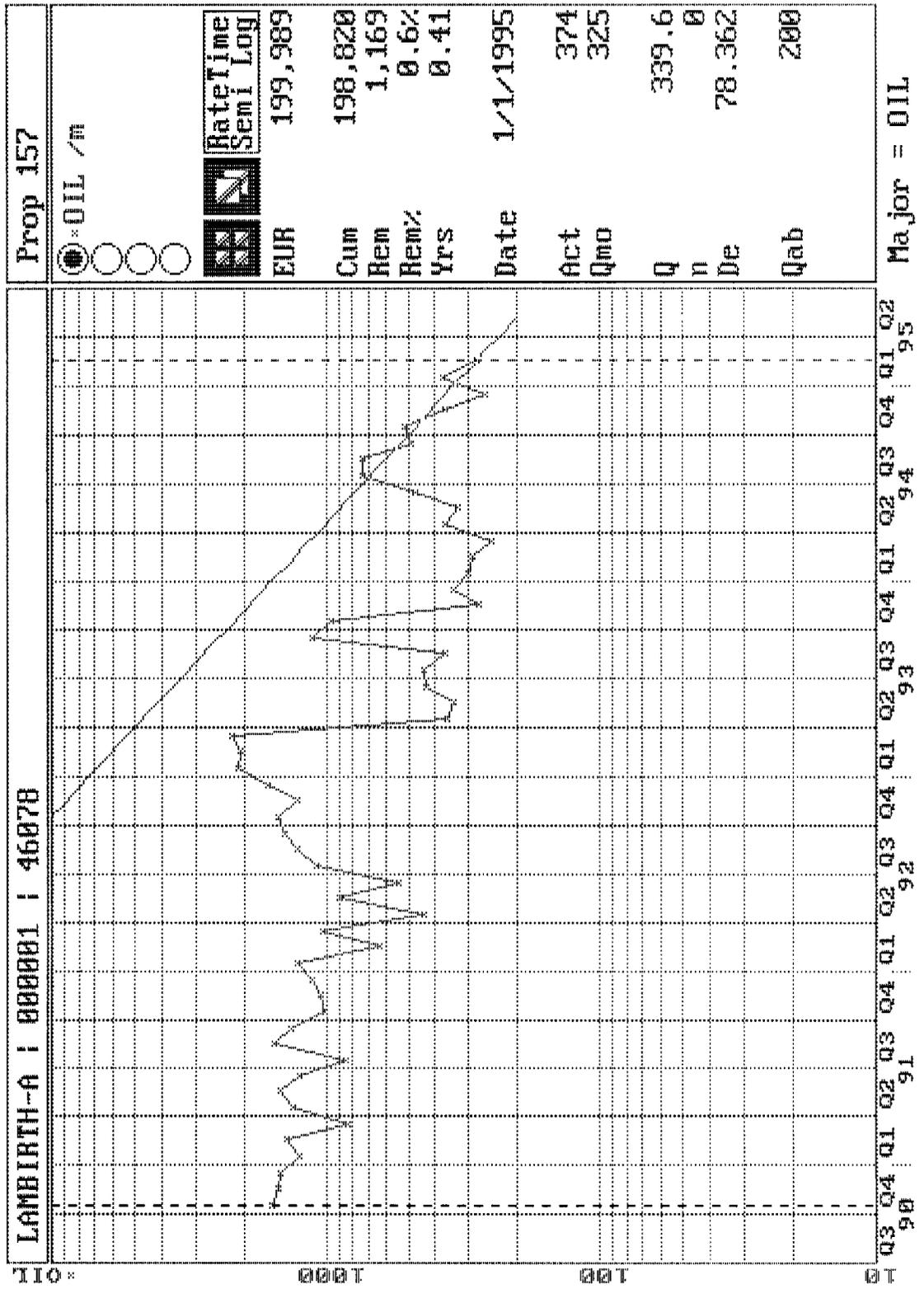
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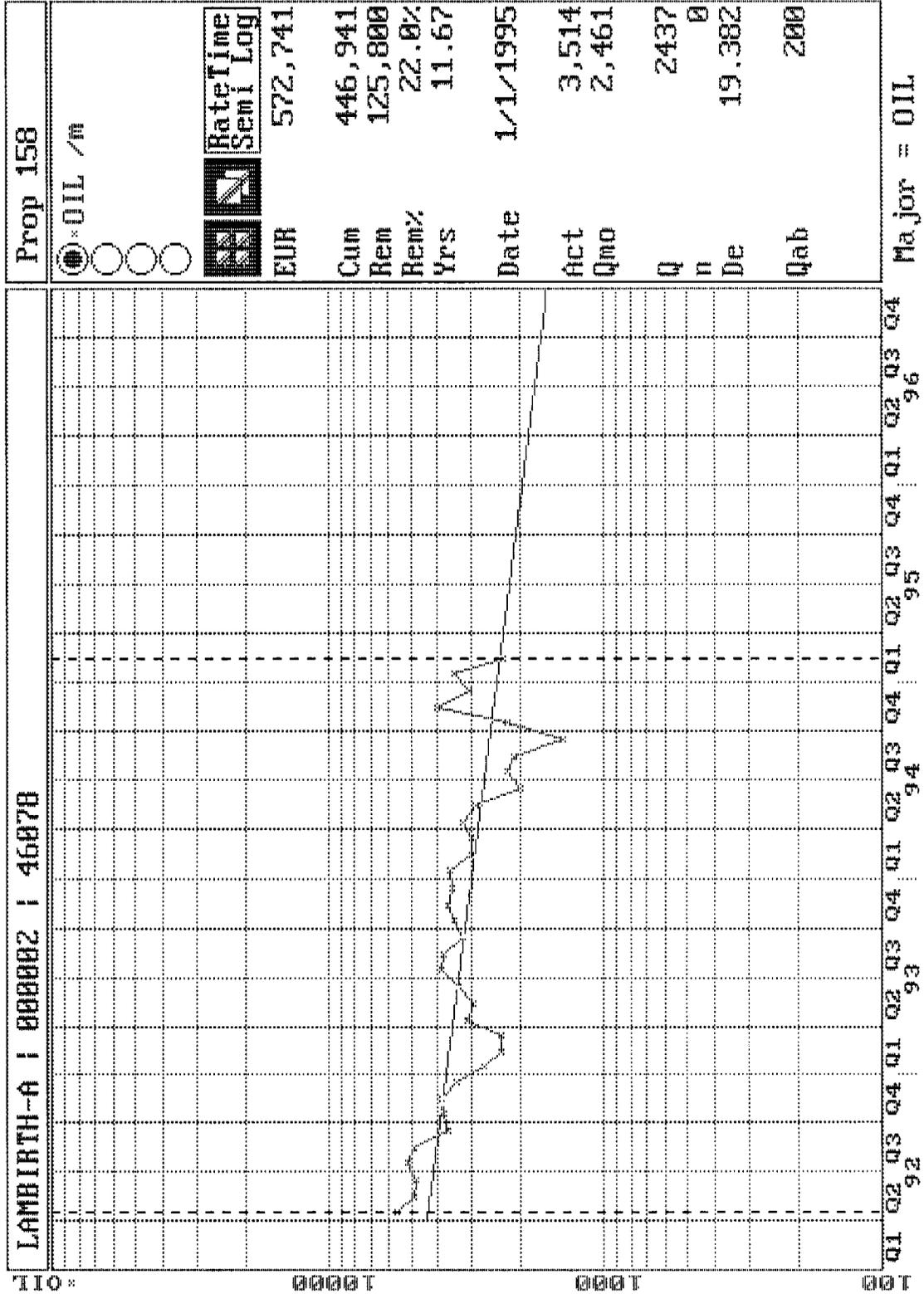
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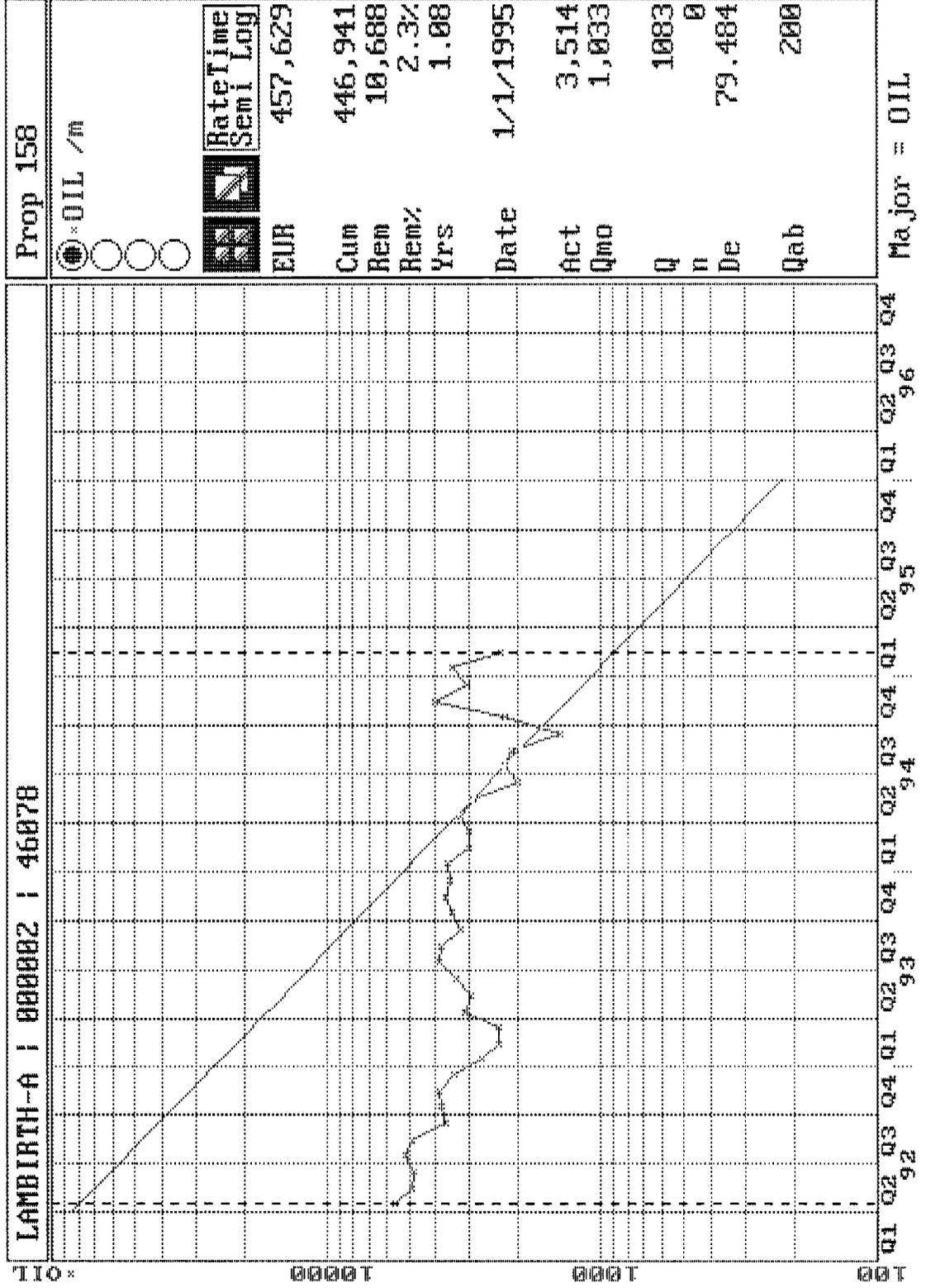
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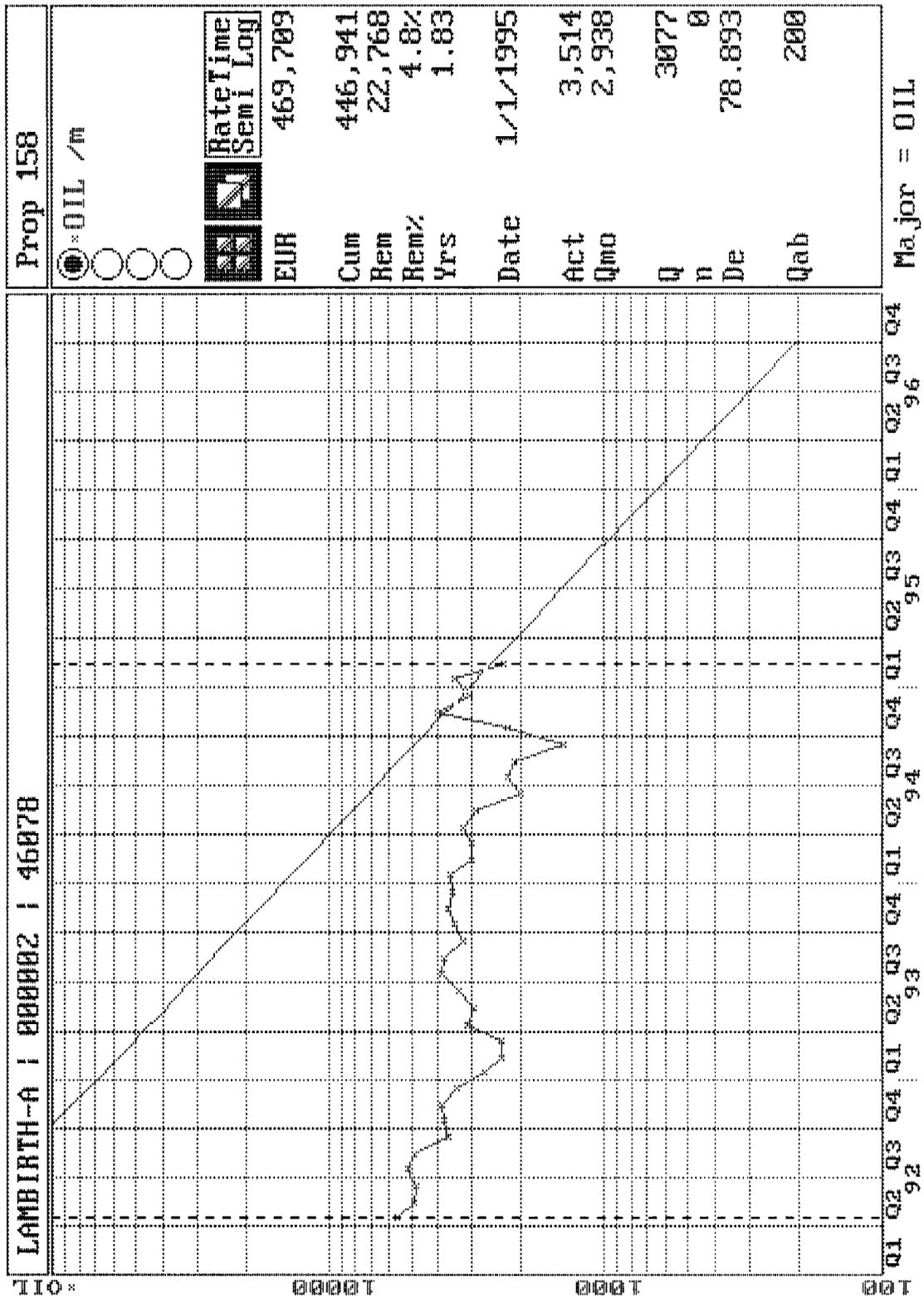
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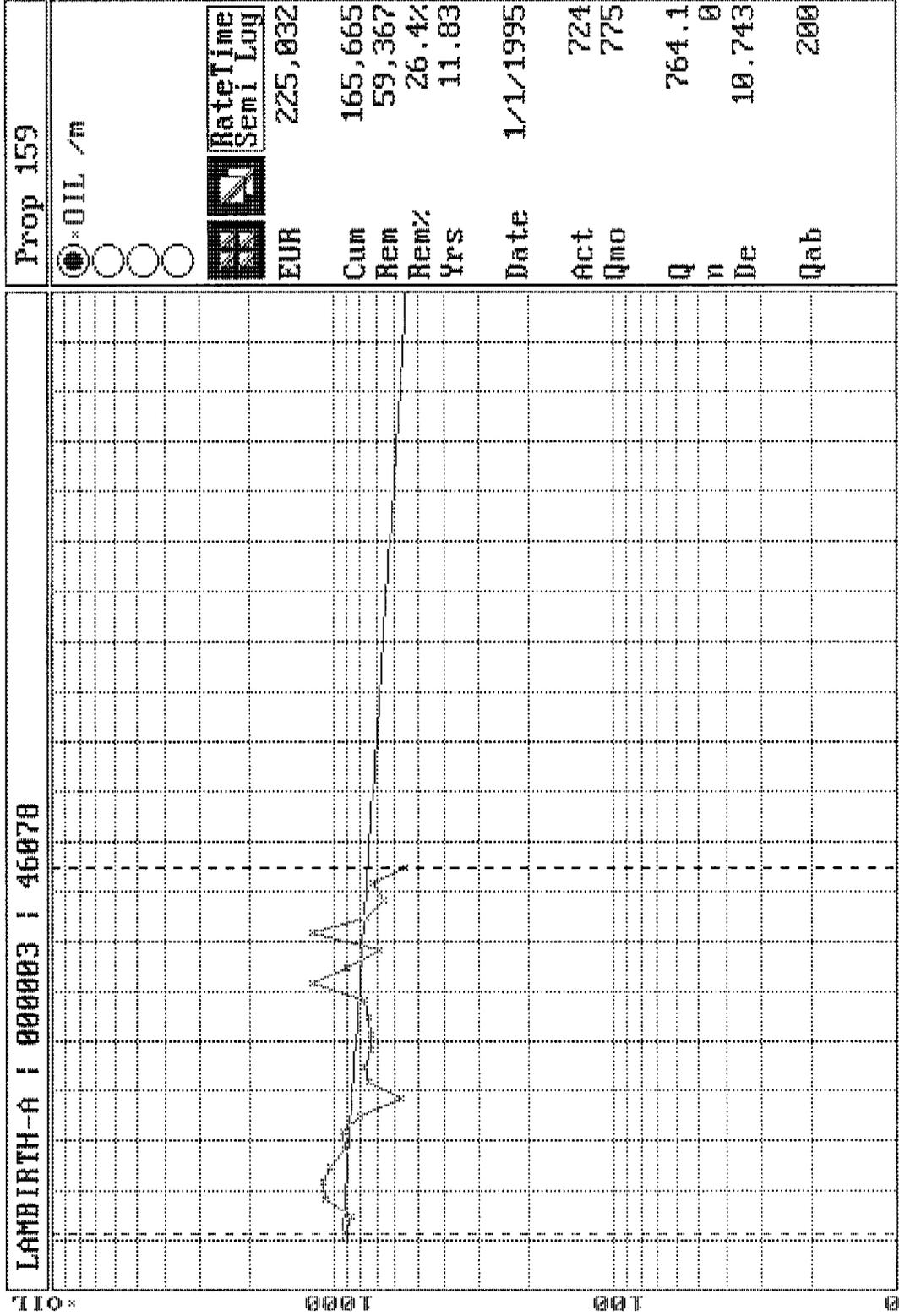
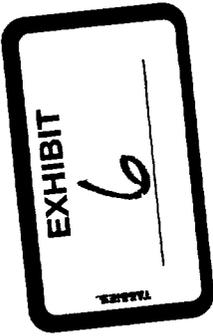
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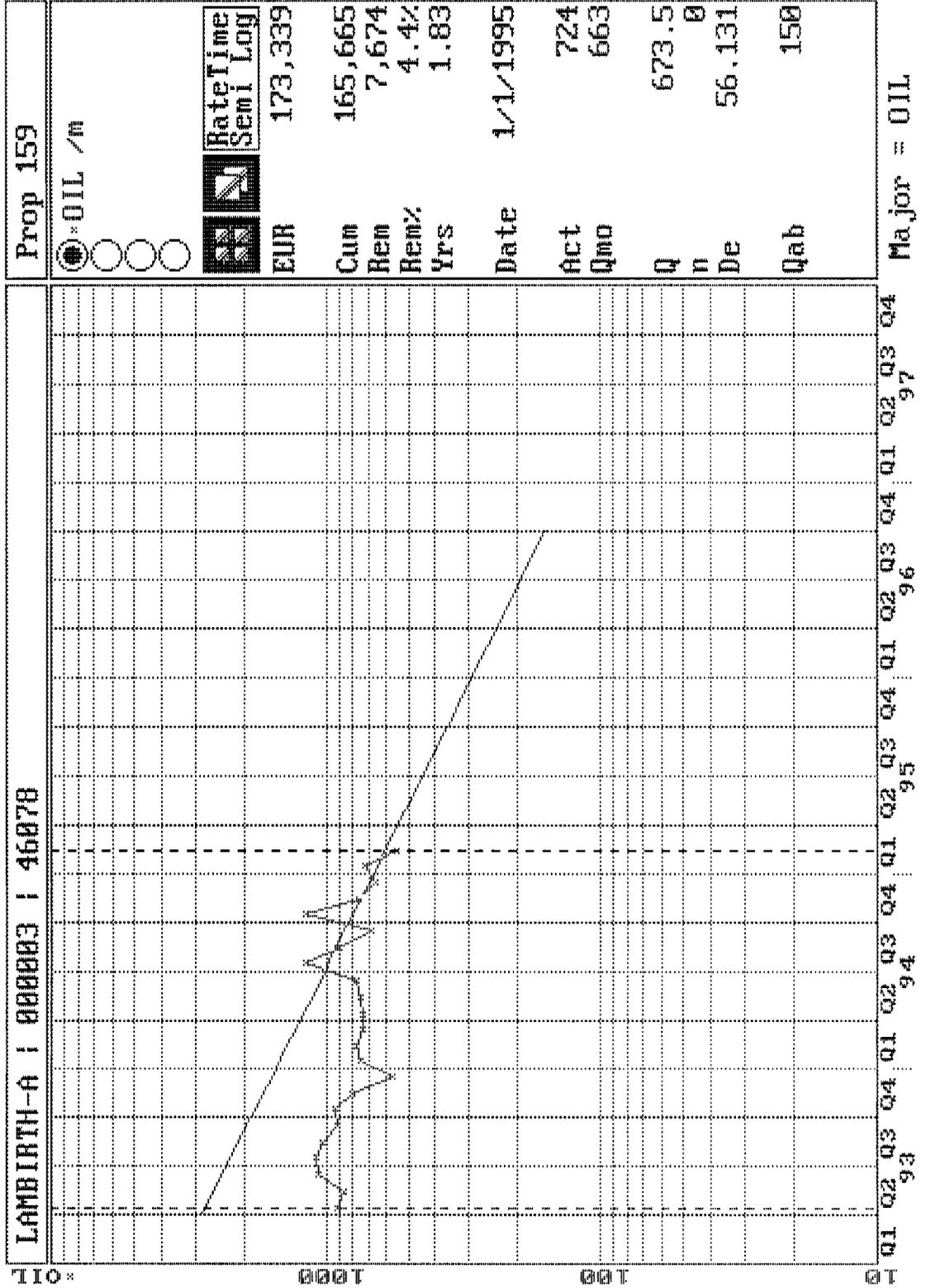




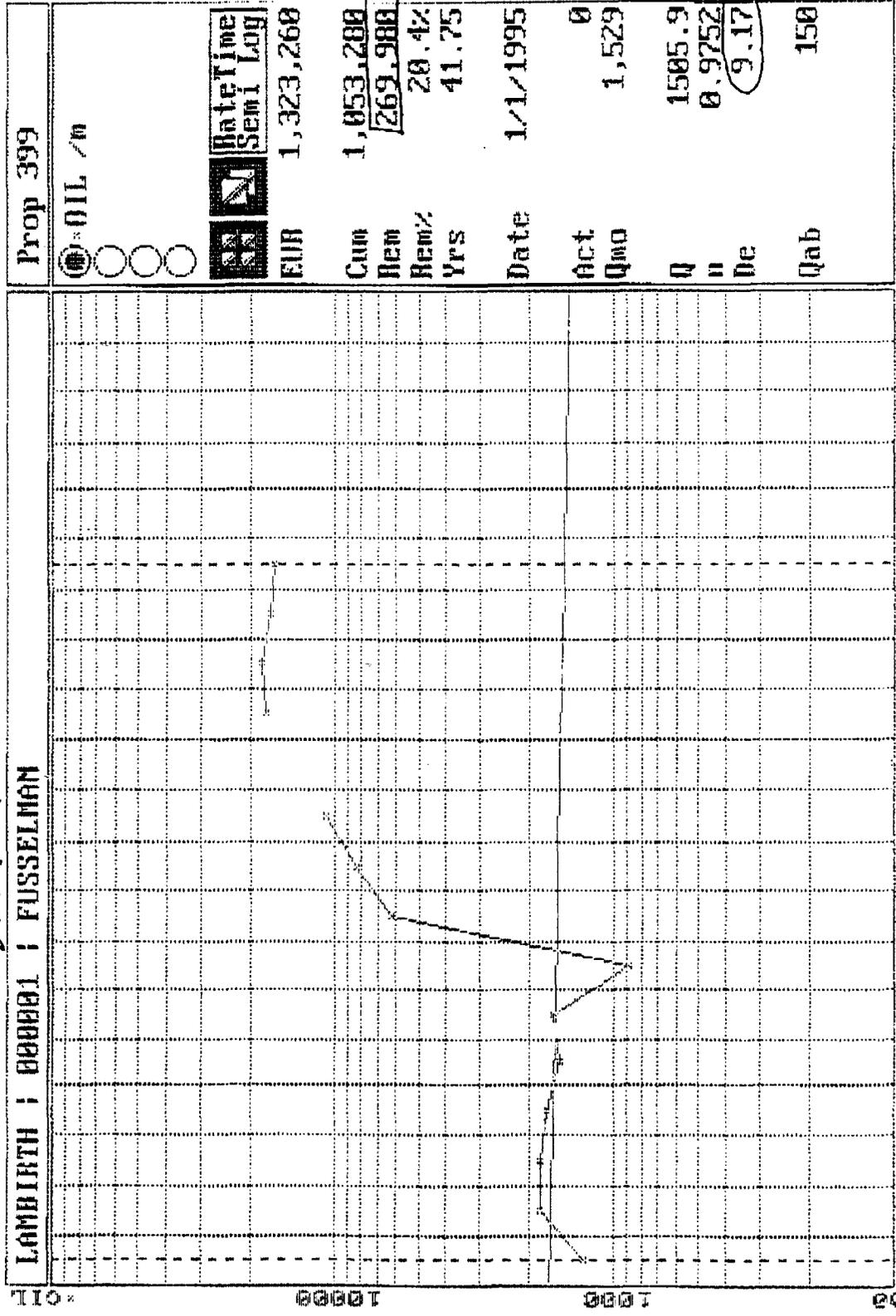




Major = OIL



ENSERCH



Prop 399

Oil /m

Rate Time Semi Log

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Cum 1,053,280

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Rem% 20.4%

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Date 1/1/1995

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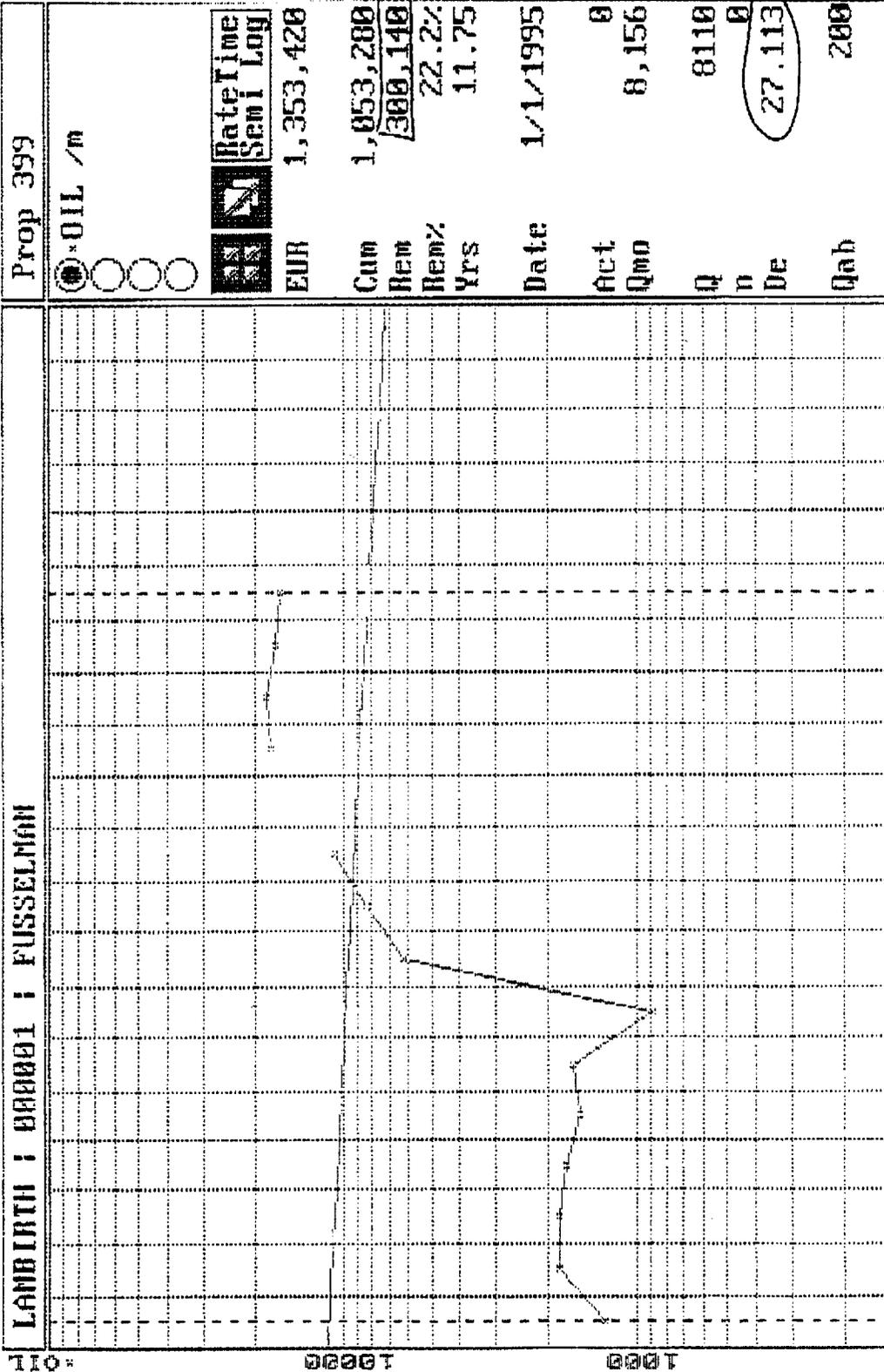
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Qab 150

Major = OIL

EXHIBIT 8

ENSEECH



Prop 399

OIL /m

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 Semi Log

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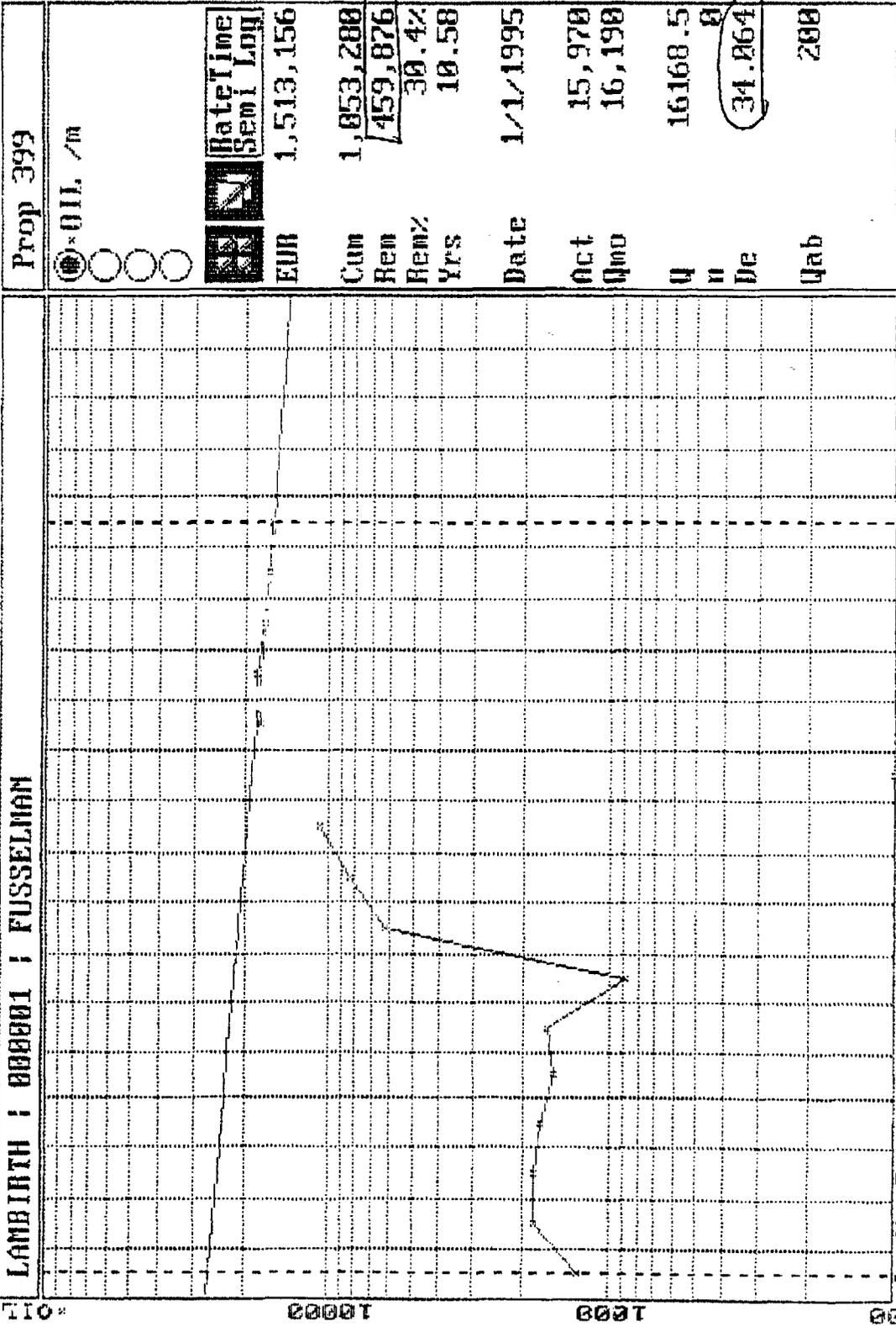
Major = OIL

EXHIBIT 9

LAMBIRTH : 00001 : FUSSELMAN

ENSERCH

LAMBIRTH : 000001 : FUSSELMAN



EXHIBIT

10

Major = OIL

KELLAHIN AND KELLAHIN
ATTORNEYS AT LAW
EL PATIO BUILDING
117 NORTH GUADALUPE
POST OFFICE BOX 2265
SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

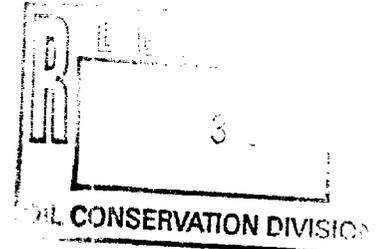
TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

September 13, 1996

HAND DELIVERED

Mr. William J. LeMay, Chairman
Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87503

Re: **REQUEST TO REOPEN DENOVO CASE 10994**
NMOCD Case 10994 (DeNovo) Order R-5771-C
Application of Ensearch Exploration, Inc. for
Increased Special Oil Allowable
South Peterson-Fusselman Pool
Roosevelt County, New Mexico.



*Grant request and
set on the docket*

Dear Mr. LeMay:

On behalf of Phillips Petroleum Company, please find enclosed our Application to Reopen DeNovo Case 10994. We request that this Application be set on the next available Commission docket now scheduled for October 29, 1996.

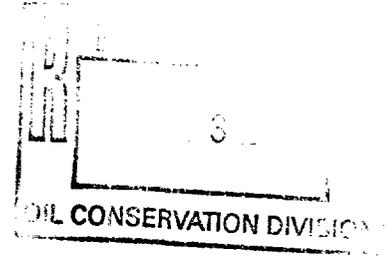
Very truly yours,

W. Thomas Kellahin

cc: **William F. Carr, Esq.**
Attorney for Ensearch Exploration, Inc.
Phillips Petroleum Company
Attn: Jack Pickett

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

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



CASE NO. 10994 (Reopened)

**APPLICATION OF PHILLIPS PETROLEUM COMPANY
TO REOPEN DENOVO CASE 10994, TO RESCIND
ORDER R-5771-C, FOR A DETERMINATION IN
ACCORDANCE WITH SECTION 70-2-33(H) NMSA
(1978) OF PROPORTIONATE SHARE OF
RECOVERABLE HYDROCARBONS AND FOR THE
ADOPTION OF A SPECIAL OIL ALLOWABLE FOR
THE SOUTH PETERSON-FUSSELMAN OIL POOL,
ROOSEVELT COUNTY, NEW MEXICO**

**APPLICATION
OF
PHILLIPS PETROLEUM COMPANY**

Comes now Phillips Petroleum Company, by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Commission to Reopen Case 10994, to rescind Order R-5771-C dated April 18, 1995, for a Determination in Accordance with Section 70-2-33(H) NMSA (1978) of the Proportionate Share of Recoverable Hydrocarbons to be Allocated to Each Spacing and Proration Unit in the South Peterson-Fusselman Pool and for the adoption of a Special Oil Allowable of 267 barrels of oil per day per proration and spacing unit for said Pool, Roosevelt County, New Mexico, to be made effective retroactive to June 1, 1994, and in support states:

BACKGROUND

(1) On July 6, 1978, in Case 6270, the Division issued Order R-5771 which granted the application of Enserch Exploration, Inc. ("Enserch") to create the South Peterson-Fusselman Oil Pool ("the Pool") and to establish 80-acre oil proration and spacing units with a maximum depth bracket oil allowable of 267 BOPD.

(2) On August 16, 1979, the Division issued Order R-5771-A which made these rules permanent and which remained unchanged for approximately sixteen years.

(3) On May 5, 1994, the Division's Supervisory-Hobbs granted Enserch's request for a special twenty (20) day temporary allowable of up to 335 BOPD so that Enserch could produce its well and obtain test data **but** specifically required that:

"if the application for additional allowable is not granted the production from the well will be curtailed back until the overage is made up."

(4) On May 17, 1994, Enserch applied to the Division for an order to increase the maximum daily oil allowable from 267 BOPD to 500 BOPD in the Pool which was docketed as Case 10994 and heard on June 23, 1994.

(5) Phillips appeared at the Division hearing and presented geologic and petroleum engineering evidence in opposition to increasing the oil allowable in the Pool.

(6) On November 3, 1994, the Division entered Order R-5771-B in Case 10994 **denying** Enserch's application.

(7) Despite having its application denied and being limited to an oil allowable of 267 BOPD, Enserch continued to produce its Lambirth Well No. 1 in Unit K at an average daily rate of about 550 BOPD.

(8) As of the Commission hearing held on February 23, 1995, Enserch had produced an estimated total of 30,000 barrels of oil from its well in excess of its allowable.

(9) On February 23, 1995, the Commission heard Case 10994 (DeNovo) which was an appeal by Enserch to the Commission based upon a denial by Division Examiner Michael E. Stogner of Enserch's request to increase the Special Oil Allowable from 267 BOPD to 500 BOPD for the Pool.

(10) On April 18, 1995, the Commission entered Order R-5771-C which reversed the Examiner's decision and which retroactive to June 1, 1994 increased the Special Oil Allowable in the Pool from 267 BOPD to 500 BOPD.

(11) Under the previous 267 BOPD allowable, the Enserch Lambirth Well No. 1 already has produced 980,000 barrels of oil and has drained 800 acres which amounts to 38% of the total oil in the entire pool while only having 20% of the original oil in place under this spacing unit.

(12) As of January 1, 1995 there remained 492,000 barrels of recoverable oil in the pool to be recovered by the remaining four wells, three operated by Phillips and one operated by Enserch.

(13) There are now only two operators, Enserch Exploration, Inc. ("Enserch") and Phillips Petroleum Company ("Phillips") and only four wells capable of producing the remaining oil within the same structural feature of this pool all in Section 31, T5S, R33E, NMPM. (See Exhibit A" attached):

Enserch's operated Lambirth Well No 1 (Unit K)
Phillips' operated Lambirth "A" Well No 1 (Unit J)
Phillips' operated Lambirth "A" Well No. 2 (Unit F)
Phillips' operated Lambirth "A" Well No. 3 (Unit N)

THE OIL & GAS ACT

(14) In accordance with the Oil and Gas Act, the Division is obligated to afford the opportunity:

"so far as it is practicable to do so, to the owners of each property in a pool to produce without waste his just and equitable share of the oil or gas or both in the pool, being an amount, so far as can be practicably determined and so far as can be practicably obtained without waste, substantially in the proportion that the quantity of recoverable oil or gas or both under the property bears to the total recoverable oil or gas or both in the pool, and for such purpose, to use his just and equitable share of the reservoir energy." See Section 70-2-33 (H) NMSA (1978).

(15) The Oil & Gas Act, also requires the Division to establish limits on oil allowables so that a high capacity well in a common source of supply would not impair the correlative rights of the owners of the adjoining low capacity wells.

EVIDENCE SUBMITTED AT PRIOR COMMISSION HEARING

(16) Before the Commission and in support of its contention to increase the oil allowable to 500 BOPD, Enserch relied upon the following:

- (a) that the Pool is a strong water drive reservoir which produces oil along with significant volumes of salt water;
- (b) that the Pool is in an advanced stage of depletion with only four remaining producing wells all located within the same structural feature of the same portion of reservoir;
- (c) that although structurally up-dip to both Phillips' wells, the Enserch well does not have any advantage because the base of the current perforations in each of these wells is at the same correlative point.

(d) that use of high volume lift installation ("HVL") in an Ellenburger, a Devonian and a Strawn reservoir in West Texas, each of which was a natural water-drive reservoir, had resulted in an apparent increase in oil rate than that expected with conventional lift methods. (See Enserch Exhibit 10 "SPE paper 7463 presented October 1, 1979")

(e) while SPE Paper 7463 discussed only oil rate increase and expressed no conclusions about increasing ultimate oil recovery, both Enserch and Phillips installed submersible pumps and initiated high volume lift ("HVL") in an effort to increase ultimate oil recovery of the remaining recoverable oil from this pool.

(f) based upon that SPE paper, Enserch theorized that adding large submersible pumps which could lift 3,000 total fluids per day, additional recovery could be attained in the Pool.

(g) Enserch based its application on a production test but failed to supply any engineering calculations to demonstrate the effect its requested rate of 500 BOPD would have on the drainage patterns for all four wells in the pool;

(h) increasing the allowable to 500 barrels of oil per day would enable Enserch to recover an additional 456,000 barrels of oil that would not be recovered.

(17) In opposition, Phillips presented geologic and petroleum engineering evidence which demonstrated that:

(a) the Enserch's Lambirth Well No. 1 is at the highest structural portion of the reservoir being some 56 feet and 69 feet, respectively, up-dip to the Phillips Lambirth A Well No 1 and the Phillips Lambirth A Well No. 2;

(b) structure has a significant effect on well performance. Neglecting structural effects and water migration leads to the erroneous conclusion that the potential losses due to higher water/oil production are negligible;

(c) continuity of the reservoir clearly supports the fact that production from Enserch's up-structure well will affect the immediate down-structure offsetting wells;

(d) **only** the higher structure, high capacity Enserch Lambirth No. 1 Well is capable of producing in excess of the 267 BOPD allowable. Phillips' structurally lower wells will never be capable of producing at this rate;

(e) only the Enserch Lambirth Well No. 1 benefits from increasing the oil allowable and that benefit would be at the expense of drainage from the Phillips' adjoining spacing units;

(f) the SPE paper theorized that once wells were experiencing 95% water-cut or greater then any additional recovery generated by increasing withdrawal rates was not enough incremental recovery to be economically attractive;

(g) because the bottom current perforation in these three wells are at the same correlative structural position and because Phillips was using the same sized HVL equipment, then it was anticipated that the Phillips wells should have been able to obtain the increased oil production achieved by Enserch.

(h) but Phillips' efforts were not successful because the permeability in the bottom perforations in the Enserch well is poor ("tight") while upper perforations have better permeability and are also structurally higher than in the Phillips's wells, Enserch is able to increase its oil rate by draining oil from Phillips' adjoining spacing units. (See Phillips' Exhibit 4).

(i) an oil allowable of greater than 267 BOPD increases the rate of total fluids withdrawn from the Enserch well which creates a pressure differential in the reservoir which increases oil production by draining oil from the down-structure Phillips' spacing units.

(j) a plot of the production curve for the Phillips Lambirth A Well No. 1 in October 1992 shows that the installation of a submersible pump resulted in a dramatic increase in the water cut--a result diametrically opposed to and contrary with the Enserch's conclusion;

(k) a plot of the production curve for the Phillips Lambirth A Well No. 2 shows that the installation of a submersible pump in February, 1992 resulted in a dramatic increase in the water cut---a result inconsistent with and contrary to the Enserch's conclusion and expectation;

(l) apart from the expectations of the SPE, and contrary to the results predicted by Enserch (Enserch Exhibit 11), the installation of a HVL for the Enserch Lambirth "A" Well No. 1 has resulted in dramatic increases in the water-cut of this well;

(m) apart from the expectations of the SPE, and contrary to the results predicted by Enserch, the installation of a HVL for the Enserch Lambirth "A" Well No 1 has not demonstrate anything except that this is an acceleration in the rate of oil production;

(n) well test data from the subject wells including actual production data, indicates that higher oil production rate in the Enserch well resulted in higher water-oil ratios. Lowering the oil rates resulted in lower water-oil ratios. With less water produced per barrel of oil, recovery is improved. Enserch presented no test data to prove otherwise. Enserch presented no test data to support 500 BOPD allowables.

(o) that increasing the rate of oil allowable will benefit only one well in the pool, the Enserch Lambirth Well No 1 and will cause that higher capacity oil well to drain the oil from the adjoining spacing units including those operated by Phillips which cannot be protected by their existing wells thereby impairing correlative rights;

(p) on July 25, 1979, before the Division in Case 6270 on behalf of Enserch's application to make the Pool rules permanent, Mr. Leonard Kersh, a petroleum engineer for Enserch, testified that the results of a 66-hours extended pressure drawn test, the Enserch Lambirth No 1, caused him to conclude that the well had a contributing pore volume of 17.76 million reservoir barrels which comes out to be an equivalent drainage area of approximately 830 acres;

(q) under the existing 267 BOPD allowable, the Enserch well already has produced 953,358 barrels of oil, 554,119 MCFG and has drained 800 acres; and

(r) the Enserch Lambirth No. 1 well has already produced 38% of the total oil in the entire pool while only having 20% of the original oil in place under this spacing unit.

**PROCEDURES FOR APPLYING TO
THE COMMISSION TO REOPEN A CASE**

(18) On October 6, 1996⁵, the Chairman of the Commission issued a letter outlining the Commission policy which established that the Division staff must concur that "new and compelling information has significantly changed Commission findings of fact and could change some of the conclusions reached by the Commission" A copy of this policy is attached as Exhibit "B".

**NEW EVIDENCE JUSTIFYING
REOPENING CASE AND RESCINDING ORDER R-5771-(C)**

(19) Subsequent to the Commission hearing, there is new evidence not available at the time of the Commission hearing which will change the result of Order R-5771-C.

(20) Subsequent to the Commission hearing, Phillips has obtained new data upon which petroleum engineering studies have been conducted which demonstrates that the new 500 BOPD allowable is simply reducing Phillips' share of remaining recoverable oil while increasing Enserch's share of remaining recoverable oil. See Affidavit of Jack Pickett, with production plot attachments, attached as Exhibit "C"

(21) The new evidence is summarized as follows:

(a) a production plot for the **Phillips' Lambirth A Well No. 3** shows a 9.1 % decline rate extrapolation for an ultimate recovery of 229,800 barrels of oil which would have recovered if Enserch had not exceeded the 287 BOPD maximum allowable compared to another production plot for this well after the increased Enserch withdrawals which shows a 47 % decline rate extrapolation for an ultimate recovery of 172,800 barrels of oil or a loss to Phillips of 57,500 barrels of oil from this Phillips' well due to Enserch's increased withdrawals.

(b) a production plot for the **Phillips' Lambirth A Well No. 2** shows an ultimate recovery of 622,000 barrels of oil by its economic limit in the year 2007 (at a water to oil ratio of 50 %) which would have recovered if Enserch had not exceeded the 287 BOPD maximum allowable compared to another production plot for this well which shows an ultimate recovery of 507,800 barrels of oil by its economic limits in the year 1997 (at a water to oil ratio of 70 %) or a loss to Phillips of 114,800 barrels of oil from this Phillips' well due to Enserch's increased withdrawals.

Note: that the estimated WOR would have been 50 by the time the well reached its economic limit in the year 2007. The significance of the WOR is that it would also not be economic to produce the well past a WOR of 70 and this curve shows this well to still be below that value at its economic limit. This is directly contrary to the Enserch position and that adopted by the Commission.

(22) From this new evidence not available at the last hearing, Phillips concludes it has been and continues to be adversely and severely impacted by the 500 BOPD maximum allowable imposed by the Commission in the South Peterson Fusselman Pool.

(23) Phillips will lose 171,800 barrels of recoverable oil due to this higher allowable and the subsequent increased drainage caused by the Enserch Lambirth Well No 1.

(24) The loss of reserves by Phillips due to the 500 BOPD maximum allowable is completely contrary to Enserch's assertions in previous hearings and completely contrary to the findings of the Commission when it ruled in Enserch's favor.

**NEW EVIDENCE CHANGES PRIOR
FINDINGS AND CONCLUSIONS OF COMMISSION**

(25) The Commission intended by Order R-5771-C to award Enserch for the application of modern technology (high volume submersible pumping equipment to lift oil and water--"HVL") based upon the Commission's belief that the facts then showed:

(a) Phillips had tried the same technology and was "able to use the available reservoir energy, a natural water drive, to increase the oil rate in both of their wells and thus protected their correlative rights" (see Finding (10) of Order R-5771-C); and

(b) Enserch using this same technology would "be able to improve the efficiency of oil recovery from their well."

(26) However, the impact of Order R-5771-C, unless modified upon Rehearing, will be a loss to Phillips of an estimated 171,800 barrels of remaining recoverable oil from this pool, thereby impairing its correlative rights in violation of the New Mexico Oil and Gas Act.

(27) Phillips new evidence demonstrates that the increase in the oil allowable will benefit only one well in the pool, the Enserch well, and will cause that higher capacity oil well to drain the oil from the adjoining Phillips' spacing units which cannot be protected by their existing wells thereby impairing correlative rights.

RELIEF REQUESTED

WHEREFORE, Phillips Petroleum Company petitions the Commission to:

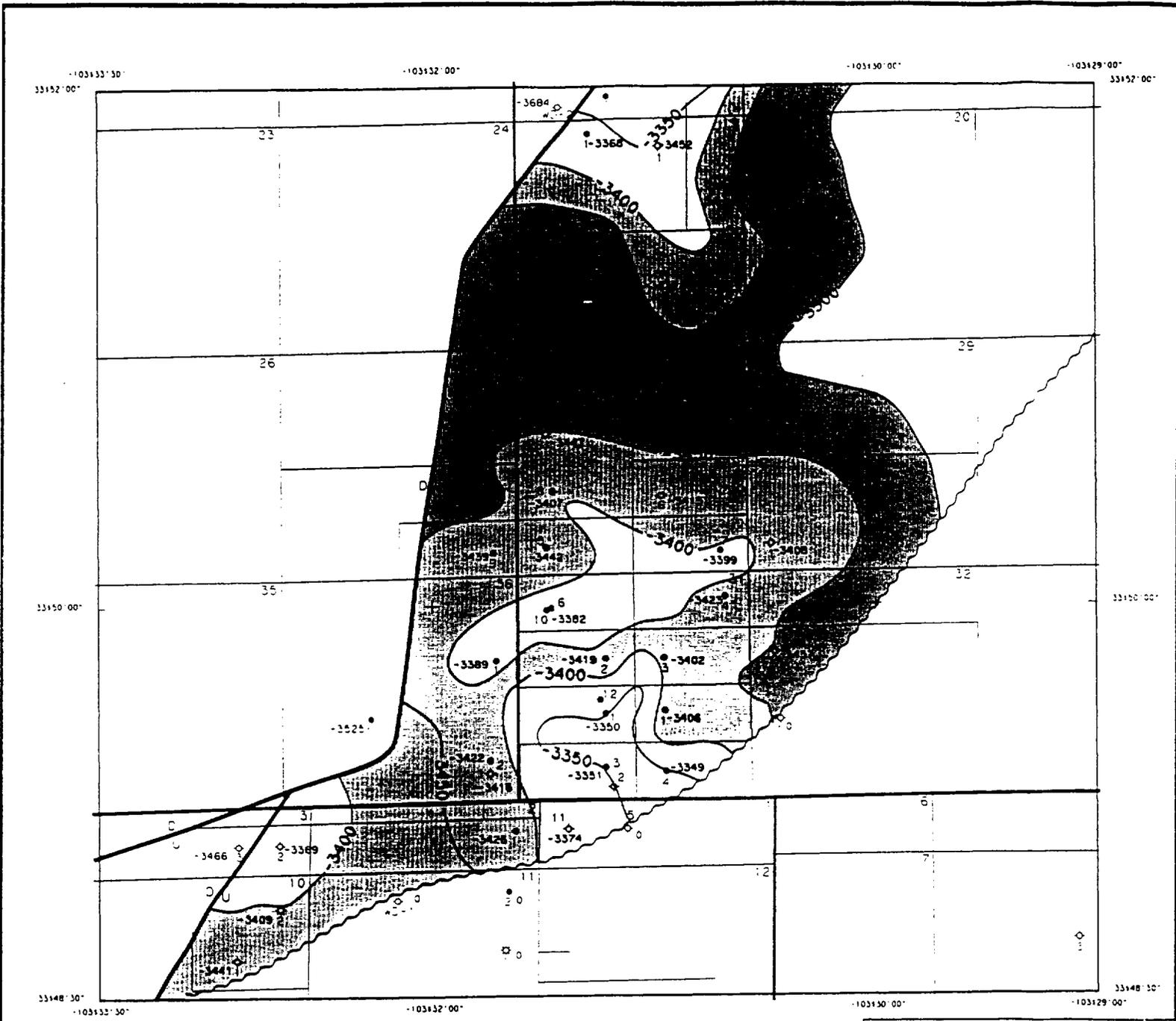
- (a) Reopen Case 10994;
- (b) rescind Order R-5771-C dated April 18, 1995;
- (c) make a determination in accordance with Section 70-2-33(H) NMSA (1978) of the proportionate share of recoverable hydrocarbons to which each proration and spacing unit is entitled substantially in the proportion that the quantity of recoverable hydrocarbons underlying each spacing unit bears to the total recoverable hydrocarbons of 492,000 barrels of oil in the pool as of June 1, 1994;
- (c) to provide a method of recovery of that allocated share at a Maximum Special Oil Allowable of 267 BOPD made effective as of June 1, 1994; and
- (d) for such other relief as is appropriate in the circumstances.

Respectfully submitted,



W. Thomas Kellahin, Esq.
KELLAHIN & KELLAHIN
P.O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

ATTORNEYS FOR PHILLIPS PETROLEUM COMPANY



 FAULTS
 EROSIONAL UNCONFORMITY PINCHOUT

BEFORE THE
 OIL CONSERVATION DIVISION
 Case No. 10994 DeNovo Exhibit No. 3
 Submitted By:
 PHILLIPS PETROLEUM
 Hearing Date: February 23, 1995

		PHILLIPS PETROLEUM COMPANY PERMIAN BASIN GEOLOGY	
SOUTH PETERSON FIELD ROOSEVELT CO., NEW MEXICO			
0 2,000 4,000 SCALE (FEET)			
SCALE: 1" = 50' CONTAINED ON: TOP OF FUSSEL MAT.	GEOLOGIST BY: SCOTT BALKE	DATE: 1-95	DRAWN BY: PHILLIPS PETRO

EXHIBIT
A

**Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87505**

October 6, 1995

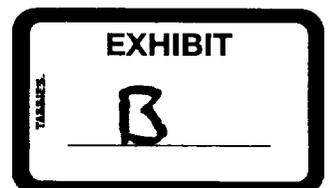
Kellahin & Kellahin
Attorneys At Law
El Patio Building
117 North Guadalupe
Santa Fe, New Mexico 87501

Re: Response to Inquiry Concerning Procedures for Applying to the Oil Conservation Commission to Reopen a Case

Dear Mr. Kellahin:

In regard to your captioned inquiry regarding what circumstances the Oil Conservation Commission (Commission) would consider sufficient cause to reopen a case based on new evidence, the following outlines our policy in this regard:

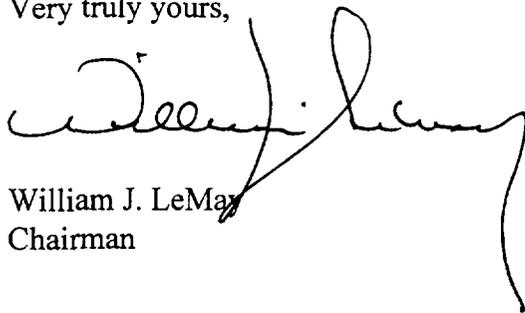
1. The availability of new evidence by itself is not sufficient grounds for the Oil Conservation Commission to reopen a case where it has issued a final order. There is always new information because wells produce oil, gas and water and reservoir pressures change and this new information populates an ever-expanding data base. This is the normal chain of events.
2. Where new data becomes available that is contrary to projected trends and is significantly different from data presented and projected at the Commission hearing, this new information may be grounds for an Oil Conservation Commission case to be reopened.
3. In order for the Commission to reconsider a case in which it has issued an order, there must be a recommendation from staff that new and compelling information has significantly changed Commission findings of fact and in their opinion could change some of the conclusions reached by the Commission.



4. The Commission will accept the recommendations from staff and then decide whether to reopen the case in which a final order was issued. This procedure in no way guarantees that the new information would be grounds for overturning or amending an Oil Conservation Commission order. The new information must be such that it contradicts information presented at the initial hearing and could therefore alter the Commission's conclusions. In no case should the applicant present arguments that were rejected by the Commission utilizing the same body of information or projected information that was used initially. In other words, this is not an opportunity for the applicant to reargue its case before staff. The applicant must present this new evidence to staff in written form and be prepared to answer any questions which staff might have.
5. The applicant shall submit a copy of its application to reopen with supporting information to the opposing parties at the original hearing at the same time the application is submitted to the OCD staff. Opposing parties will have 14 days from receipt to respond in writing. The application to reopen and any response will be the only items considered by the Commission in deciding whether to grant the application. No oral argument will be heard at that level. The applicant must also, of course, comply with all applicable notice requirements if the application is granted.

Thanks for your inquiry into Division policy concerning rehearings by the Commission.

Very truly yours,



William J. LeMay
Chairman

WJL/sm

cc: William Carr
James Bruce
Ernest Padilla
Ernest Carroll
Jami Bailey, Commissioner
William Weiss, Commissioner

(2) Experience:

As a petroleum engineer employed by Phillips Petroleum Company, I have been responsible for and involved in the various petroleum engineering aspects of the South Peterson-Fusselman Oil Pool and qualified and testified before the Division in hearings of Case 10994 held on June 23, 1994 and before the Commission in Case 10994(DeNovo) heard on February 24, 1995 concerning the rules for this pool.

I am personally knowledgeable and familiar with the facts and circumstances of these cases and the following factual chronology.

C. My expert opinions are based upon the following facts and events:

**CHRONOLOGICAL SUMMARY OF
SIGNIFICANT FACTS AND EVENTS**

(1) On July 6, 1978, in Case 6270, the Division issued Order R-5771 which granted the application of Enserch Exploration, Inc. ("Enserch") to create the South Peterson-Fusselman Oil Pool ("the Pool") and to establish 80-acre oil proration and spacing units **with** a maximum depth bracket oil allowable of 267 BOPD.

(2) On August 16, 1979, the Division issued Order R-5771-A which made these rules permanent and which have remained unchanged for approximately sixteen years.

(3) There are now only two operators, Enserch Exploration Inc ("Enserch") and Phillips Petroleum Company ("Phillips") and only four wells capable of producing the remaining oil within the same structural feature of this pool all in Section 31, T5S, R33E, NMPM (See geological display attached):

Enserch's operated Lambirth Well No 1 (Unit K)
Phillips' operated Lambirth "A" Well No 1 (Unit J)
Phillips' operated Lambirth "A" Well No. 2 (Unit F)
Phillips' operated Lambirth "A" Well No. 3 (Unit N)

(7) On May 5, 1994, the Division's Supervisory-Hobbs granted Enserch's request for a special twenty (20) day temporary allowable of up to 335 BOPD so that Enserch could produce its well and obtain test data **but** specifically required that:

"if the application for additional allowable is not granted the production from the well will be curtailed back until the overage is made up."

(8) On May 17, 1994, Enserch applied to the Division for an order to increase the maximum daily oil allowable from 267 BOPD to 500 BOPD in the Pool which was docketed as Case 10994 and heard on June 23, 1994.

(9) On July 27, 1995, at the Division Examiner Hearing, I testified as Phillips' petroleum engineer and presented petroleum engineering evidence in opposition to increasing the oil allowable in the Pool.

(10) On November 3, 1994, the Division entered Order R-5771-B in case 10994 **denying** Enserch's application.

(11) On February 24, 1995, at the New Mexico Oil Conservation Commission hearing, I testified as Phillips' petroleum engineer and along with Scott Balke, Phillips geologist, presented evidence which demonstrated that:

(a) the Enserch's Lambirth Well No. 1 is at the highest structural portion of the reservoir being some 56 feet and 69 feet, respectively, up-dip to the Phillips Lambirth A Well No 1 and the Phillips Lambirth A Well No. 2;

(d) only the Enserch Lambirth Well No. 1 benefits from increasing the oil allowable and that benefit would be at the expense of drainage from the Phillips' adjoining spacing units;

(c) the SPE paper theorized that once wells were experiencing 95% water-cut or greater then any additional recovery generated by increasing withdrawal rates was not enough incremental recovery to be economically attractive;

(d) because the bottom current perforation in these three wells are at the same correlative structural position and because Phillips was using the same sized HVL equipment, then it was anticipated that the Phillips wells should have been able to obtain the increased oil production achieved by Enserch.

(e) but Phillips' efforts were not successful because the permeability in the bottom perforations in the Enserch well is poor ("tight") while upper perforations have better permeability and are also structurally higher than in the Phillips's wells, Enserch is able to increase its oil rate by draining oil from Phillips' adjoining spacing units. (See Phillips' Exhibit 4).

(f) an oil allowable of greater than 267 BOPD increases the rate of total fluids withdrawn from the Enserch well which creates a pressure differential in the reservoir which increases oil production by draining oil from the down-structure Phillips' spacing units.

(g) a plot of the production curve for the Phillips Lambirth A Well No. 1 in October 1992 shows that the installation of a submersible pump resulted in a dramatic increase in the water cut--a result diametrically opposed to and contrary with the Enserch's conclusion;

(h) a plot of the production curve for the Phillips Lambirth A Well No. 2 shows that the installation of a submersible pump in February, 1992 resulted in a dramatic increase in the water

cut--a result inconsistent with and contrary to the Enserch's conclusion and expectation;

(i) apart from the expectations of the SPE, and contrary to the results predicted by Enserch (Enserch Exhibit 11), the installation of a HVL for the Enserch Lambirth "A" Well No. 1 has resulted in dramatic increases in the water-cut of this well;

(j) apart from the expectations of the SPE, and contrary to the results predicted by Enserch, the installation of a HVL for the Enserch Lambirth "A" Well No 1 has not demonstrate anything except that this is an acceleration in the rate of oil production;

(k) that increasing the rate of oil allowable will benefit only one well in the pool, the Enserch Lambirth Well No 1 and will cause that higher capacity oil well to drain the oil from the adjoining spacing units including those operated by Phillips which cannot be protected by their existing wells thereby impairing correlative rights;

(l) on July 25, 1979, before the Division in Case 6270 on behalf of Enserch's application to make the Pool rules permanent, Mr. Leonard Kersh, a petroleum engineer for Enserch, testified that the results of a 66-hours extended pressure drawn test, the Enserch Lambirth No 1, caused him to conclude that the well had a contributing pore volume of 17.76 million reservoir barrels which comes out to be an equivalent drainage area of approximately 830 acres;

(m) under the existing 267 BOPD allowable, the Enserch well already has produced 953,358 barrels of oil, 554,119 MCFG and has drained 800 acres; and

(n) the Enserch Lambirth No. 1 well has already produced 38% of the total oil in the entire pool while only having 20% of the original oil in place under this spacing unit.

**NEW EVIDENCE JUSTIFYING
REOPENING CASE AND RESCINDING ORDER R-5771-(C)**

Subsequent to the Commission hearing, I have obtained new production data upon which I conducted petroleum engineering studies to determine if the Commission's order as set forth in Order R-5771-C will result in the loss of remaining recoverable reserves to Phillips. In addition, based upon this new data, I also conducted engineering studies to determine if the Commission's order will result in increasing ultimate oil recovery from the pool.

NEW EVIDENCE TO SUPPORT MY CONCLUSIONS:

The new evidence to support my conclusions is attached to this affidavit and is as follows:

Phillips' Lambirth A Well No. 3:

Attachment No. 1: is a production plot for this well **before** Enserch exceeded the 287 BOPD maximum oil allowable. The green straight line is a 9.1% decline rate extrapolation based on data before mid-1984 or before Enserch began exceeding the 287 BOPD maximum allowable. The line extrapolates to an ultimate recovery of 229,800 barrels of oil and is the amount of oil the well would have recovered if Enserch had not exceeded the 287 BOPD maximum allowable.

Attachment No. 2: is a production plot for this well **after** Enserch exceeded the 287 BOPD maximum oil allowable. This new decline rate is shown as a green line, declines at a 47% rate, and extrapolates to an ultimate recovery ("EUR") for this well of 172,200 barrels of oil. I conclude that this Phillips well will lose 57,500 barrels of oil due to Enserch's increased withdrawals. Please note that this decline rate of 47% could not have been ascertained from the data available prior to the Commission's January, 1995 hearing.

Phillips' Lambirth A Well No. 2:

Attachment No. 3: is a production plot for this well **before** Enserch exceeded the 287 BOPD maximum oil allowable. The green straight line is a 13.7% decline and is based upon production data since a submersible pump was installed in February, 1993. Note that the green line ends in the year 2007 when the well reaches its economic limit of 450 BO/month. Therefore, if Enserch had never exceeded the 287 BOPD maximum allowable, I conclude that the ultimate recovery ("EUR") for the Phillips Lambirth A Well No. 2 would have been 622,000 barrels of oil. The black straight line is an extrapolation of the water/oil ratio ("WOR") and is based upon data prior to mid-1994 that is before Enserch exceeded the 287 BOPD maximum oil allowable). Note that the estimated WOR would have been 50 by the time the well reached its economic limit in the year 2007. The significance of the WOR is that it would also not be economic to produce the well past a WOR of 70 and this curve shows this well to still be below that value at its economic limit. This is directly contrary to the Enserch position and that adopted by the Commission.

Attachment No. 4: is a production plot for this well **after** Enserch exceeded the 287 BOPD maximum oil allowable. The oil decline is at the same 13.7% decline rate as shown on Attachment No. 3 **but** the WOR extrapolation (black straight line) is now based upon data since mid-1994 or after Enserch began exceeding the 287 BOPD maximum oil allowable. The WOR now reaches an economic limit of 70 in the year 1997. This is caused by the Enserch Lambirth Well No 1 operating at an increased withdrawal rate which causes water to migrate more rapidly into the Phillips Lambirth A Well No. 2 and has vastly shortened this well's life and reduced its EUR to only 507,800 barrels of oil. This reduction amounts to over 114,800 barrels of oil which Phillips would have recovered from this well had not Enserch exceeded the 287 BOPD

maximum oil allowable. Note that the increased WOR was not evident prior to the Commission hearing held in January, 1995 and is new data since the last hearing.

Enserch's Lambirth Well No. 1:

Attachment No 5: is a production plot for this well. This well was shut-in during March, 1995 as being no long economic to produce. The demise of this well was hastened by the increased Enserch withdrawals.

D. SUMMARY OF MY CONCLUSIONS: I have formed the following opinions based upon my expertise and upon the foregoing chronology of events and new data:

From this new evidence not available at the last hearing, I have concluded that Phillips has been and continues to be adversely and severely impacted by the 500 BOPD maximum allowable imposed by the Commission in the South Peterson Fusselman Pool. In fact, Phillips will lose 171,800 barrels of recoverable oil due to this higher allowable and the subsequent increased drainage caused by the Enserch Lambirth Well No 1. The loss of reserves by Phillips due to the 500 BOPD maximum allowable is completely contrary to Enserch's assertions in previous hearings and completely contrary to the findings of the Commission when it ruled in Enserch's favor.

This loss of reserves was predicated by Phillips at both the Examiner hearing held on June 23, 1994 and at the De Novo Commission hearing held on February 23, 1995. Of course the loss of reserves was just a predication, but production data since the Commission hearing now confirms this loss of reserves by Phillips.

I concluded that increasing the oil allowable simply produces the same amount of remaining oil faster and in doing so has drained and continues to drain Phillips' spacing units for the benefit of Enserch.

FURTHER AFFIANT SAYETH NOT:



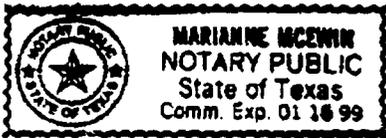
Jack Pickett

State of Texas)

)SS

County of Ector)

SUBSCRIBED AND SWORN TO before me this 12th day of September, 1996 by
Jack Pickett.



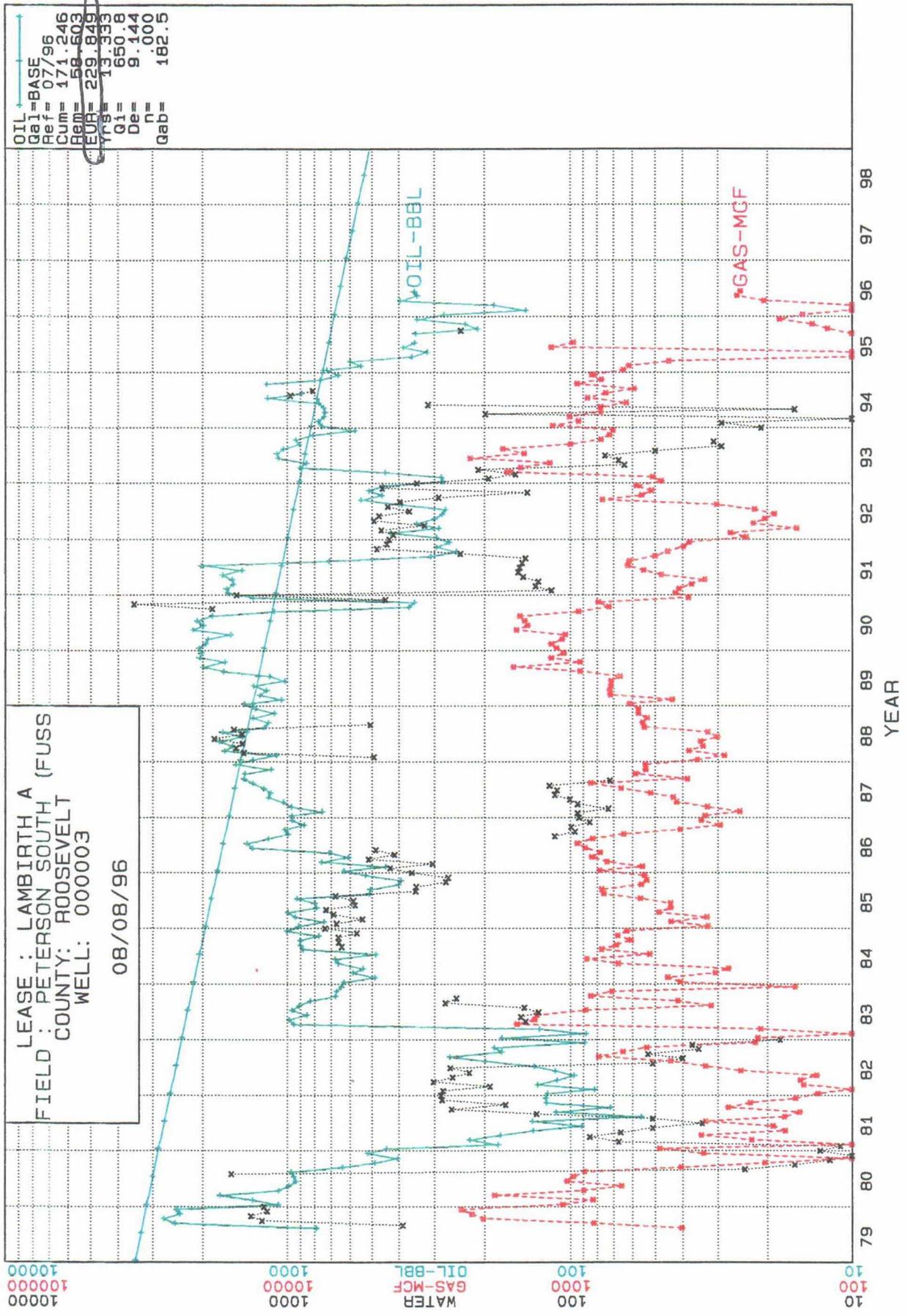


Notary Public

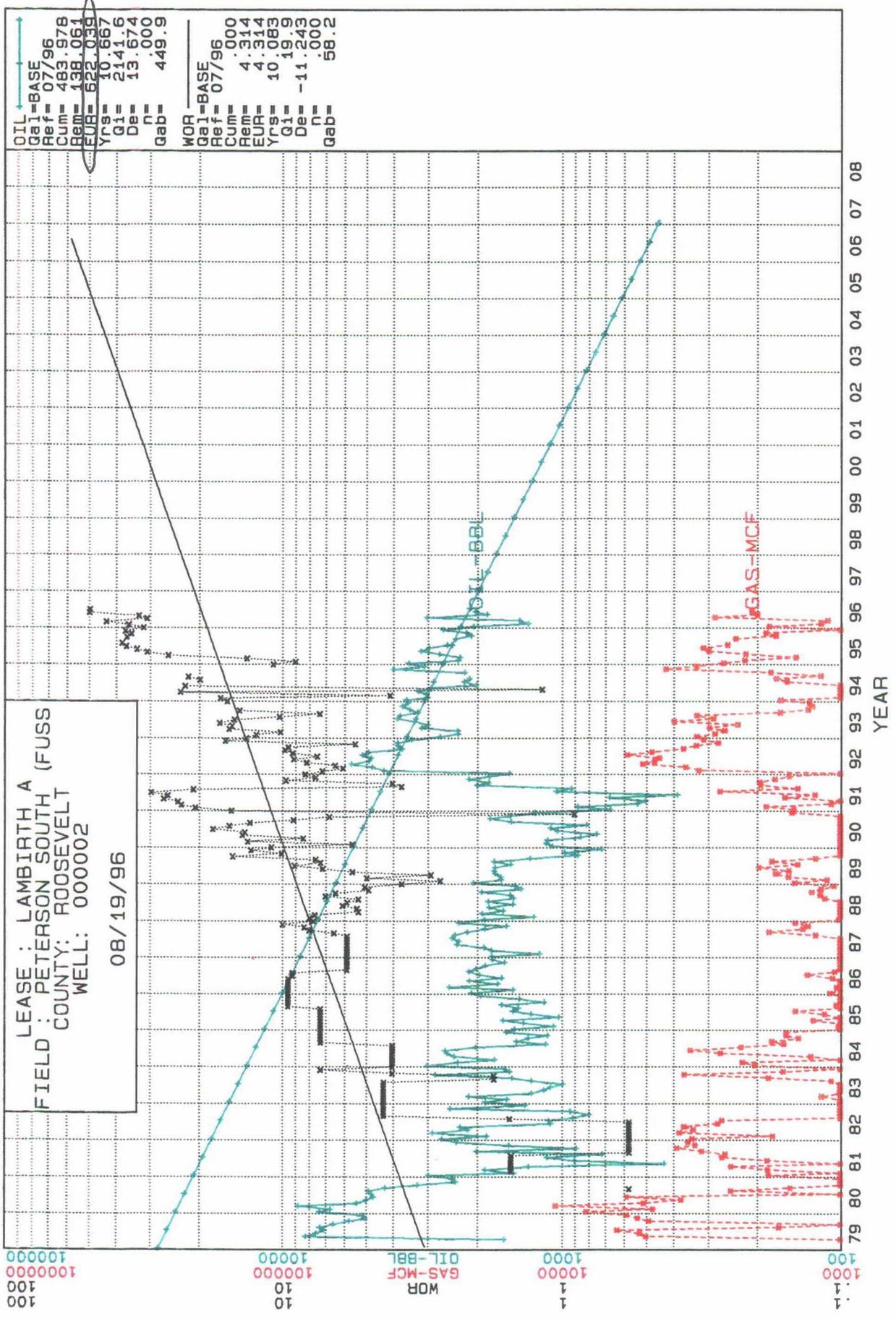
(SEAL)

My Commission Expires: 1-16-99

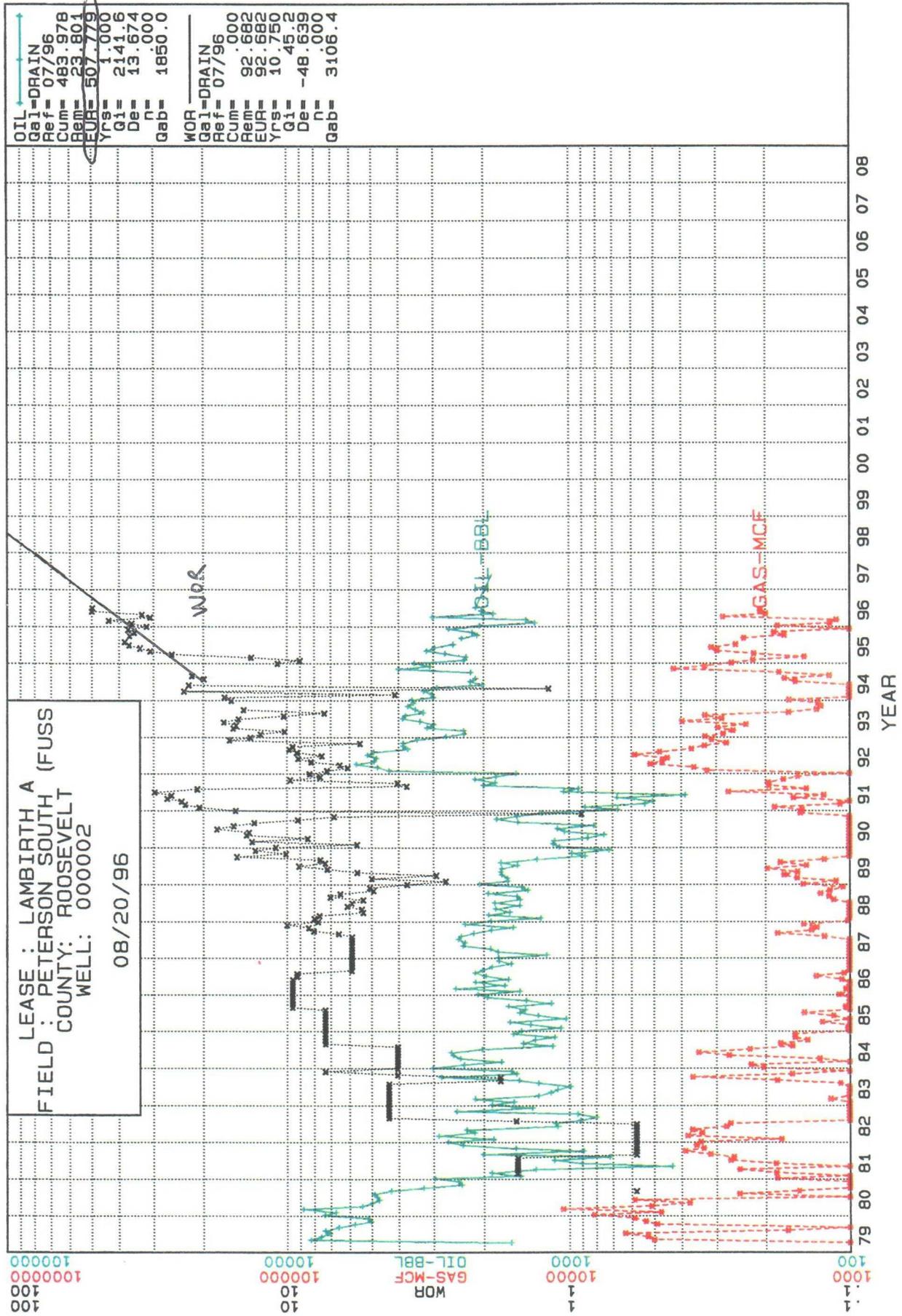
ATTACHMENT NO.1



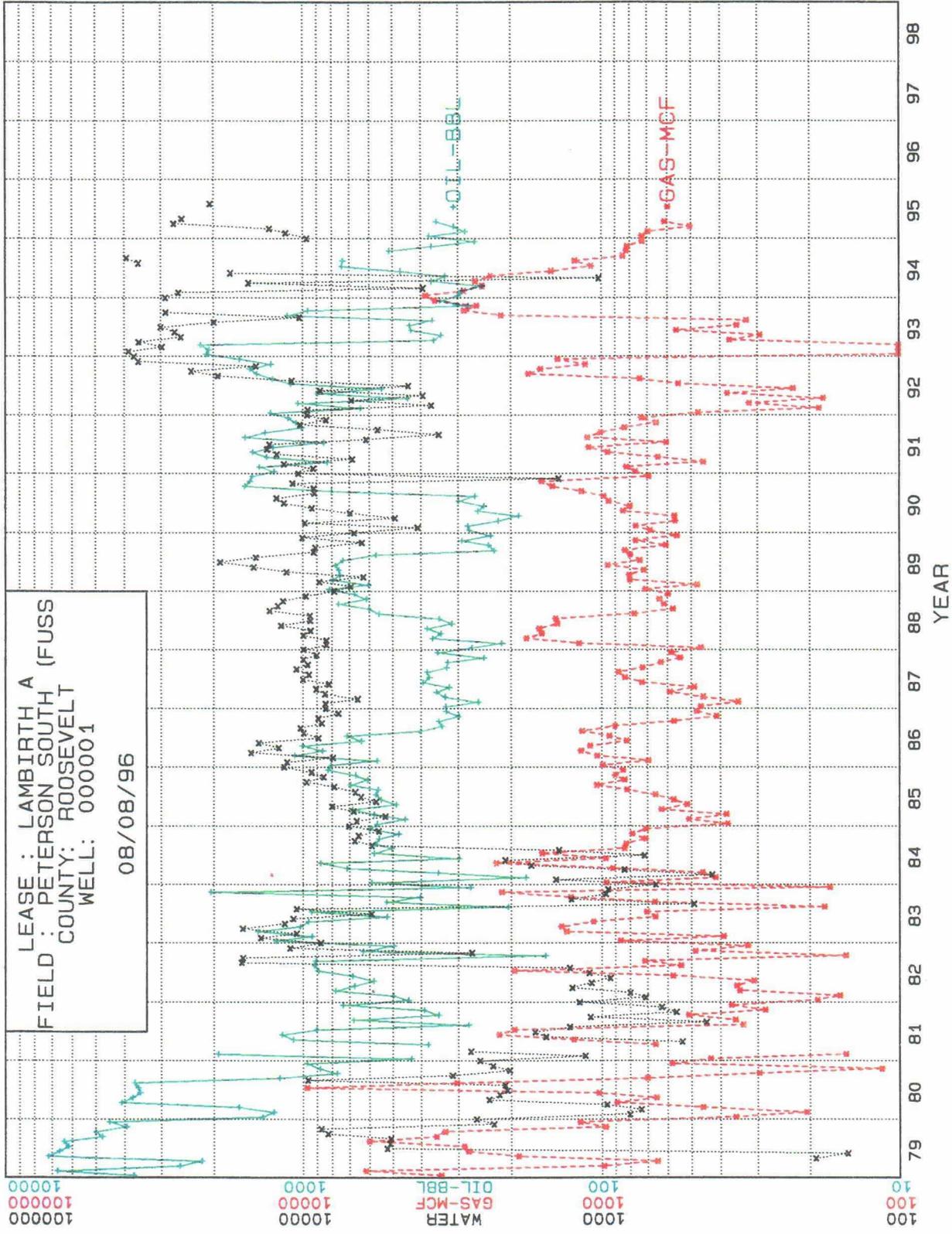
ATTACHMENT NO.3



ATTACHMENT NO.4



ATTACHMENT NO.5



9/19/96

Mike -

Your opinion
please.

9/19/96

✓ Bill -

David's comments are attached. Mike won't be back until Tuesday, 9/24. Enserch has until 9/27 (a Friday) to respond, according to our policy. It's an engineering call. Let's wait for Mike's opinion and Carr's (Enserch) response and make a decision on Mon 9/30 or Tues 10/1.

Rand

Memorandum from RAND L. CARROLL

Date 10/9/96

To:

✓ Mike -

It was on your desk. Please look it over and give us your comments.

Thx.

Bill -

Reopen H.

Rand
Mike
David

Mr. Lock for it

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW
EL PATIO BUILDING
117 NORTH GUADALUPE
POST OFFICE BOX 2268

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*
*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW
JASON KELLAHIN (RETIRED 1991)

SANTA FE, NEW MEXICO 87504-2268

October 8, 1996

VIA FACSIMILE
(505) 827-8177

Mr. William J. LeMay, Chairman
Oil Conservation Commission
2040 South Pacheco
Santa Fe, New Mexico 87503

Re: **REQUEST TO REOPEN DENOVO CASE 10994**
NMOCD Case 10994 (DeNovo) Order R-5771-C
Application of Enserch Exploration, Inc. for
Increased Special Oil Allowable
South Peterson-Fusselman Pool
Roosevelt County, New Mexico.

1/14/97/10/11/96
Have you seen the
need in the
renewal of the
the Commission
Bill

Dear Mr. LeMay:

On September 13, 1996, on behalf of Phillips Petroleum Company, I filed an Application to Reopen DeNovo Case 10994 and requested that it be set on the next available Commission docket now scheduled for October 29, 1996.

On the same date this application was filed, I served a copy on opposing counsel of record for Enserch Exploration, Inc. The Commission policy set forth in your letter to me dated October 6, 1995, provides a 14 day period for filing objections. More than 24 days have now passed and Enserch has failed to object.

Accordingly, I renew my unopposed request that this matter be docketed for an evidentiary hearing. The next available docket now is November 14, 1996. We request a hearing on that date.

Very truly yours,



W. Thomas Kellahin

cc: *William F. Carr, Esq.*
Attorney for Enserch Exploration, Inc.
Phillips Petroleum Company
Attn: Jack Pickett

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN

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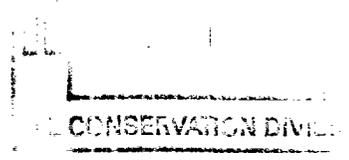
JACK M. CAMPBELL
OF COUNSEL

JEFFERSON PLACE
SUITE 1110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

October 21, 1996

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505



Re: Oil Conservation Division Case No. 10994:
Application of Phillips Petroleum Company to Reopen DeNovo Case 10994,
to Rescind Order R-5771-C, for a Determination in Accordance with Section
709-2-33(H) NMSA (1978) of Proportionate Share of Recoverable
Hydrocarbons and for the Adoption of a Special Oil Allowable for the South
Peterson-Fusselman Oil Pool, Roosevelt County, New Mexico

Dear Mr. LeMay:

Enclosed for your consideration is the Response of Enserch Exploration Inc. to the
Application of Phillips Petroleum Company to Reopen Case 10994.

If you require anything further from Enserch to proceed with your consideration of this
response, please advise.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style and is positioned below the "Very truly yours," text.

WILLIAM F. CARR

WFC:mlh

Enc.

cc: Frank H. Pope, Jr., Esq. (w/enclosure)
W. Thomas Kellahin, Esq. (w/enclosure)

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

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

CASE NO. 10994

**APPLICATION OF PHILLIPS PETROLEUM COMPANY
TO REOPEN DENOVO CASE 10994, TO RESCIND
ORDER R-5771-C, FOR A DETERMINATION IN
ACCORDANCE WITH SECTION 70-2-33(H) NMSA
(1978) OF PROPORTIONATE SHARE OF
RECOVERABLE HYDROCARBONS AND FOR THE
ADOPTION OF A SPECIAL OIL ALLOWABLE FOR
THE SOUTH PETERSON-FUSSELMAN OIL POOL,
ROOSEVELT COUNTY, NEW MEXICO.**

**RESPONSE OF ENSERCH EXPLORATION INC.
TO
APPLICATION OF PHILLIPS PETROLEUM COMPANY
TO REOPEN CASE 10994**

On April 18, 1996, the Commission entered Order No. R-5771-C granting the application of Enserch Exploration Inc. for the assignment of an allowable of 500 barrels of oil per day to 80-acre spacing units in the South Peterson-Fusselman Pool located in Roosevelt County, New Mexico. Phillips Petroleum Company opposed the Enserch application before the Commission and has appealed this decision to District Court. Instead of following the procedures established by law for review of Commission decisions, Phillips now asks for an

additional administrative hearing where it seeks the reallocation between the operators in this pool of the oil produced from this pool during the last 29 months. It also seeks to set aside Order R-5771-C and roll back the allowable for this pool to 267 barrels of oil per day effective on June 1, 1994.

This is not the first time Phillips has taken a novel approach to this case. In June 1995, it asked this Commission to rehear its objections to the Enserch application. When its request was denied, it appealed to the District Court. Then it filed a new case before a Division Examiner and sought a new examiner hearing on the same issues that had been rejected by the Commission.

Chairman LeMay advised Phillips in September 1995 that Phillips was mounting a collateral attack on the prior Division Order and advised Phillips that it had "the process reversed."

Phillips has waited more than a year to bring this application. During that time, Enserch has produced its wells in accordance with Commission Order R-5771-C. Phillips now wants to change the rules for this pool retroactively to June 1, 1994. Again Phillips has "the process reversed." The Commission's decision to assign a 500 barrel per day allowable effective in June 1994 is before the District Court of Roosevelt County, New Mexico. That is where the propriety of the Commission's decision should be reviewed. By trying to now retroactively change the allowable, Phillips is attempting circumvent the District Court appeal and the

Court's review of this Commission decision. Phillips had its day before the Commission and is now before the Court, any question about the propriety of the allowable set after June 1, 1994 must be decided there.

PHILLIPS HAS NO NEW EVIDENCE:

In support of its request for a new hearing, Phillips points to "new evidence not available at the last hearing." A review of the attachments to Phillips' application demonstrates that their "new evidence" does not meet the standards outlined in Mr. LeMay's October 6, 1995 letter Responding to Phillips' Inquiry as to Procedures for applying to the Oil Conservation Commission to Reopen a case. Mr. LeMay noted that the "availability of new evidence by itself is not sufficient grounds for the Oil Conservation Commission to reopen a case where it has issued a final order." He pointed out that for this data to justify the reopening of a case, it must be "contrary to projected trends" and "significantly different from data presented and projected at the Commission hearing." A review of the evidence as summarized by Phillips in its Application clearly fails to meet this test.

Phillips presents two plots of production from the Phillips Lambirth A Well No. 3. A comparison of these plots shows the same general production trend for 1994 to the present (except for the increase in production in 1996) as is shown for 1992 and 1993. This data is not significantly different than data presented at the 1995 Commission hearing and is not "contrary to present trends" nor is it "significantly different than the data presented and projected at the

Commission hearing." This data does not justify a new hearing.

Phillips also presents additional data on its Lambirth A. Well No. 2. Clearly this data is not new data. The production trend cited by Phillips in support of its claim for a new hearing, by its own testimony, goes back to the date a submersible pump was placed in this well in February 1993--two years before the 1995 Commission hearing. This "new evidence" is not significantly different from the data presented in 1995. In fact, **it is the same data**. A new hearing is not warranted.

PHILLIPS ATTEMPTS TO REWRITE THE OIL AND GAS ACT:

Phillips cites the definition of "correlative rights" from the Oil and Gas Act in support of its request that the Commission reopen this case and reallocate the production from the pool retroactively to June 1, 1994. Nothing in the definition of "correlative rights" nor in the Oil and Gas Act authorize the Commission to take oil and gas that has been lawfully produced by one operator and retroactively give it to another. To do so would make a travesty of the Orders of the Division. If what Phillips is asking the Commission to do is applied to other pools, then perhaps the Commission should review each pool after the last barrel and mcf have been produced and reallocate the production among the operators in the reservoir.

Clearly what Phillips seeks is contrary to "correlative rights" as that term is defined in statute. If their request is granted, the Commission will retroactively allocate production from this pool--taking production from those who have availed themselves of the opportunity to

produce their fair share of the reserves in the pool and giving these reserves to those who have not.

The application of Phillips Petroleum Corporation to Reopen De Novo Case 10994, to Rescind Order R-5771-C, and to redetermine and allocate the production from the South Peterson-Fusselman Oil Pool should be denied.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone (505) 988-4421

ATTORNEYS FOR ENSERCH
EXPLORATION, INC.

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of October, 1996, I have caused to be hand-delivered a copy of the Response of Enserch Exploration Inc. to the Application of Phillips Petroleum Company to Reopen Case 10994 in the above-captioned case to:

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
117 North Guadalupe Street
Santa Fe, New Mexico 87501


William F. Carr

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

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



CASE NO. 10994

**APPLICATION OF PHILLIPS PETROLEUM COMPANY
TO REOPEN DENOVO CASE 10994, TO RESCIND
ORDER R-5771-C, FOR A DETERMINATION IN
ACCORDANCE WITH SECTION 70-2-33(H) NMSA
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& SHERIDAN, P. A.

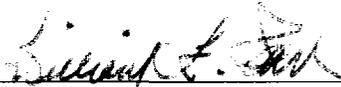
By: 
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Post Office Box 2208
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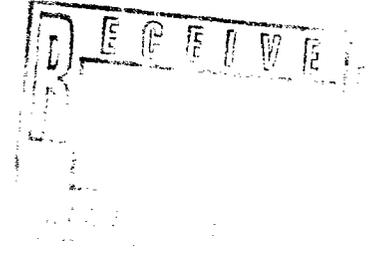
W. Thomas Kellahin, Esq.
Kellahin & Kellahin
117 North Guadalupe Street
Santa Fe, New Mexico 87501



William F. Carr

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

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



CASE NO. 10994

**APPLICATION OF PHILLIPS PETROLEUM COMPANY
TO REOPEN DENOVO CASE 10994, TO RESCIND
ORDER R-5771-C, FOR A DETERMINATION IN
ACCORDANCE WITH SECTION 70-2-33(H) NMSA
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produce their fair share of the reserves in the pool and giving these reserves to those who have not.

The application of Phillips Petroleum Corporation to Reopen De Novo Case 10994, to Rescind Order R-5771-C, and to redetermine and allocate the production from the South Peterson-Fusselman Oil Pool should be denied.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P. A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone (505) 988-4421

ATTORNEYS FOR ENSERCH
EXPLORATION, INC.

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of October, 1996, I have caused to be hand-delivered a copy of the Response of Enserch Exploration Inc. to the Application of Phillips Petroleum Company to Reopen Case 10994 in the above-captioned case to:

W. Thomas Kellahin, Esq.
Kellahin & Kellahin
117 North Guadalupe Street
Santa Fe, New Mexico 87501


William F. Carr

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
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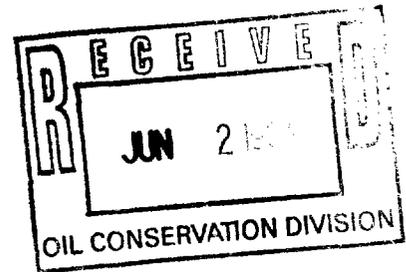
JACK M. CAMPBELL
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JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

June 1, 1994

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503



Re: Oil Conservation Division Case No. 10994:
Application of Enserch Exploration, Inc., for the Assignment at a Special
Depth Bracket Oil Allowable, Roosevelt County, New Mexico

Dear Mr. LeMay:

Enserch Exploration, Inc., has been asked by Phillips Petroleum Company to continue this matter which is currently set on the Division docket for June 9, 1994. Enserch has no objection to this request and therefore asks the Division to continue this hearing to the June 23, 1994 Examiner docket.

Your attention to this matter is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr". The signature is written in a cursive style and is positioned above the typed name.

WILLIAM F. CARR
WFC:mlh

cc: W. Thomas Kellahin, Esq.

CASE 10994:

Application of Enserch Exploration, Inc., for special pool rules, Roosevelt County, New Mexico. Applicant seeks the promulgation of special pool rules and regulations for the South Peterson-Fusselman Pool including a provision for a special oil allowable of 500 barrels of oil per day. Said pool is located in portions of Townships 5 and 6 South, Ranges 32 and 33 East, located _____ approximately _____ miles _____ of _____, New Mexico.

MAY 17 1994

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.
LAWYERS

MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
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PATRICIA A. MATTHEWS
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SUITE 1 - 110 NORTH GUADALUPE
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SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

May 17, 1994

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

MAY 17 1994

Case 10994

Re: Application of Enserch Exploration, Inc., for Special Pool Rules, Roosevelt
County, New Mexico

Dear Mr. LeMay:

Enclosed in triplicate is the Application of Enserch Exploration, Inc., in the above-referenced matter. Also enclosed is a draft of a legal advertisement for this case. Enserch Exploration, Inc. requests that this case be set for hearing before a Division Examiner on June 9, 1994.

Your attention to this request is appreciated.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosures

cc: Mr. Frank H. Pope, Jr., (w/enclosures)

BEFORE THE
OIL CONSERVATION DIVISION

NEW MEXICO DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES

IN THE MATTER OF THE APPLICATION
OF ENSERCH EXPLORATION, INC.
FOR SPECIAL POOL RULES,
ROOSEVELT COUNTY, NEW MEXICO.

MAY 17 1994

CASE NO. 10994

APPLICATION

ENSERCH EXPLORATION, INC., through its undersigned attorneys, makes application to the Oil Conservation Division for an Order promulgating Special Pool Rules and Regulations for the South Peterson-Fusselman Pool, and in support thereof states:

1. Enserch Exploration, Inc., is the operator of certain wells in the South Peterson-Fusselman Pool which was established on July 17, 1978 by Order No. R-5771 and has been extended from time to time to include the following described lands in Roosevelt County, New Mexico:

Township 5 South, Range 32 East, N.M.P.M.

Section 25: SE/4
Section 36: NE/4

Township 5 South, Range 33 East, N.M.P.M.

Section 30: S/2
Section 31: All

Township 6 South, Range 33 East, N.M.P.M.

Section 1: Lots 3 and 4
Section 2: Lots 1, 2, 3 and 4
Section 3: Lots 1 and 2
Section 10: NE/4

2. The wells in the South Peterson-Fusselman Pool are operated under statewide rules with a depth bracket allowable of 187 bbls per day and a gas allowable rate of 374 mcf per day at a 2,000 to 1 Gas/Oil Ratio.

3. Certain wells in the Fusselman formation in this Pool can produce at rates as high as 500 barrels per day and producing wells in this pool at the currently authorized rates will result in oil ultimately being left in the ground.

4. Enserch Exploration, Inc., seeks establishment of a special oil allowable for the pool of 500 barrels of oil per day.

5. Approval of this application will result in the production of hydrocarbons which otherwise will not be produced and will otherwise be in the best interest of conservation and the protection of correlative rights.

WHEREFORE, Enserch Exploration, Inc., requests that this application be set for hearing before a duly appointed Examiner of the Oil Conservation Division on June 9, 1994 and that, after notice and hearing as required by law and the rules of the Division, the Division enter its Order promulgating Special Pool Rules and Regulations for the South Peterson-Fusselman Pool including provisions for a special oil allowable of 500 barrels per day.

Respectfully submitted,

CAMPBELL, CARR, BERGE
& SHERIDAN, P.A.

By: 
WILLIAM F. CARR
Post Office Box 2208
Santa Fe, New Mexico 87504
Telephone: (505) 988-4421

ATTORNEYS FOR ENSERCH
EXPLORATION, INC.

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