

CAMPBELL & BLACK, P.A.

LAWYERS

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October 18, 1988

HAND-DELIVERED

Mr. David R. Catanach, Examiner  
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. 9500  
In the Matter of the Application of Read & Stevens, Inc.  
for an Unorthodox Gas Well Location, Eddy County, New  
Mexico

Dear Mr. Catanach:

Enclosed for your consideration is the proposed Order of Read & Stevens, Inc. in the above-referenced case.

Your attention to this matter is appreciated.

Very truly yours,

  
WILLIAM F. CARR

WFC:mlh

Enclosure

cc: Mr. Charles B. Read  
Read & Stevens, Inc.

W. Thomas Kellahin, Esq.  
Ernest Carroll, Esq.

RECEIVED  
OCT 23 1988  
OIL CONSERVATION DIVISION

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

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

CASE NO. 9500  
ORDER NO. R-\_\_\_\_\_

APPLICATION OF READ & STEVENS, INC.  
FOR AN UNORTHODOX GAS WELL  
LOCATION, EDDY COUNTY, NEW MEXICO.

READ & STEVENS, INC.'s  
PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 12, 1988, at Santa Fe, New Mexico.

NOW, on this \_\_\_\_\_ day of October, 1988, the Division Director, having considered the record,

**FINDS THAT:**

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

(2) The applicant, Read & Stevens, Inc. seeks approval to drill a well at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 19, Township 19 South, Range 29 East, NMPM, to test the Undesignated Turkey Track Morrow Gas Pool, or Undesignated West Parkway-Morrow Gas Pool, Eddy County, New Mexico.

(3) The E/2 of said Section 19 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit for said pool.

(4) Exxon Company, U.S.A., owner and operator of the E/2 of Section 18, Township 19 South, Range 29 East, which is presently dedicated to wells producing from the Cisco and Queen formations and Hondo Drilling Company, owner and operator of the S/2 of Section 17, Township 19 South, Range 29 East, which is producing from the Morrow formation appeared at the hearing and objected to the subject application.

(5) Drilling a well at the proposed location involves less risk than a well drilled at a standard location in the E/2 of said Section 19.

(6) According to the geological evidence and testimony presented by the applicant and by Hondo Drilling Company, more than 50% of the E/2 of Section 19 contains commercial reserves in the Morrow formation and a well at the proposed unorthodox gas well location will enable the applicant to produce the gas underlying the proration unit.

(7) The evidence showed that pressure depletion has occurred in this reservoir from the production of over 3.7 billion cubic feet of gas from the Hondo, Union Texas State Com. No. 1 Well in the S/2 of Section 17. As a result of this pressure depletion to the North and East most of the reserves produced by the proposed well will be drained from the South and West and therefore from applicant's spacing unit.

(8) An allowable penalty should be imposed on the Morrow production from the subject well to protect the correlative rights of the other operators in the area.

(9) The most northeasterly standard well site in the E/2 of said Section 19 would be 1980 feet from the North line and 660 feet from the East line of said Section 19.

(10) The proposed well will be 1320 feet (66.6 percent) closer to the northern end boundary than permitted under Rule 104.C.III(a) of the New Mexico Oil Conservation Division General Rules and Regulations but at a standard distance from the eastern boundary (100.0 percent) of the spacing unit; however there is no well producing from the Morrow formation in the spacing units to the North or East of this unit and the only offsetting producing Morrow well is the Hondo well to the Northeast.

(11) The penalty imposed for the Morrow production upon the subject well should be based upon the footage variation of the unorthodox location from a standard Morrow location as described in Finding Paragraph No. 10 above.

(12) An allowable factor for Morrow production of .666 for the subject well (.333 North-South factor plus 1.00 East-West factor divided by 2) will prevent waste and protect correlative rights of the applicant as well as other operators in the Morrow formation, and should therefore be approved.

(13) In the absence of any special rules and regulations for the proration of production from the Morrow formation in which the subject well will be completed, the aforesaid production allowable factor should be applied against said well's ability to produce into the pipeline as determined by annual deliverability tests.

(14) Applicant should be limited each month to 66.6% of the well's deliverability to produce but such limit should not be less than 500 MCF per day.

(15) In the event the well should be completed as a gas well in another formation the same limitation of production should apply.

(16) Approval of the subject application subject to the above provisions and limitations will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject Morrow reservoir, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Read & Stevens, Inc. for an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 19, Township 19 South, Range 29 East, NMPM, to test the Undesignated Turkey Track Morrow Gas Pool or the Undesignated West Parkway-Morrow Gas Pool, Eddy County, New Mexico is hereby approved.

(2) The E/2 of said Section 19, being a standard 320-acre Morrow gas spacing and proration unit, shall be dedicated to the above-described well.

**IT IS FURTHER ORDERED THAT:**

(3) Said well is hereby assigned a Production Allowable Factor of 0.666 for Morrow gas production (penalty of 0.333).

CASE NO. 9500

ORDER NO. R-\_\_\_\_\_

Page 4

(4) In the absence of any special rules and regulations prorationing gas production in the subject Morrow Pool, the well shall be permitted to produce a volume determined by multiplying the well's Production Allowable Factor by its ability to produce as determined by annual deliverability tests to be conducted in accordance with procedures prescribed by the District Supervisor of the Division or 500,000 cubic feet of gas per day, whichever is greater.

(5) Production during any month at a rate less than the limitation described above shall not be carried forward as underproduction into succeeding months, but overproduction of such limitation during any month shall be made up in the next succeeding month or months by shut in or reduced rates as required by the District Supervisor of the Division.

(6) Unless modified by further order, after notice and hearing, the limitation imposed on Morrow production by ordering paragraphs (3) and (4) shall also apply to gas production from any other formation in which the well may be completed to which the E/2 or NE/4 of said Section 18 is dedicated.

(7) Jurisdiction of this cause is retained for entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY  
Director

S E A L

**EXXON** COMPANY, U.S.A.

POST OFFICE BOX 1600 • MIDLAND, TEXAS 79702-1600

PRODUCTION DEPARTMENT  
SOUTHWESTERN DIVISION

*Case No. 9500*

September 21, 1988

*M. S.*

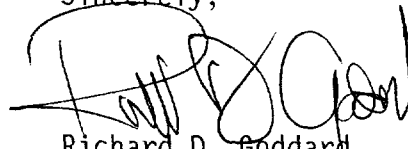
Read and Stevens, Inc. Application  
Unorthodox Well Location  
660' FNL & FEL, Section 19,  
T-19-S, R-29-E, Eddy County, NM  
Undesignated Turkey Tract-Morrow Gas Pool or  
Undesignated West Parkway-Morrow Gas Pool

William J. LeMay, Director  
New Mexico Oil Conservation Division  
P. O. Box 2088  
State Land Office Building  
Santa Fe, NM 87504

Dear Mr. LeMay:

Exxon Corporation has been advised of the captioned application and will seek that a penalty be imposed on production from Read and Stevens' proposed unorthodox gas well when the application is heard before the New Mexico Oil Conservation Commission (NMOCD). Although this hearing is currently set for October 12, 1988, Exxon's witnesses, who have been prepared to testify on numerous hearing dates set since the original April 13, 1988 docket (previously Case 9353), have schedule conflicts with both the October 12 and the next scheduled (October 26) NMOCD examiner hearing dates. For that reason, we request that this case be continued until the November 9, 1988 NMOCD examiner hearing, at which time Exxon will present evidence in opposition.

Sincerely,



Richard D. Goddard  
Regulatory Affairs Supervisor

RDG:ddm

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

c: W. Thomas Kellahin, Santa Fe, NM  
William F. Carr, Santa Fe, NM  
Charlie Read, Read & Stevens, Inc., Roswell, NM

CAMPBELL & BLACK, P.A.  
LAWYERS

JACK M. CAMPBELL  
BRUCE D. BLACK  
MICHAEL B. CAMPBELL  
WILLIAM F. CARR  
BRADFORD C. BERGE  
MARK F. SHERIDAN  
J. SCOTT HALL  
PETER N. IVES  
JOHN H. BEMIS  
MARTE D. LIGHTSTONE

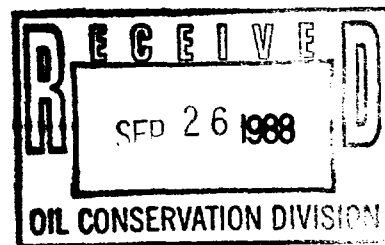
*Case No. 9500*

GUADALUPE PLACE  
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September 26, 1988

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: Application of Read & Stevens, Inc. for an Unorthodox Gas  
Well Location, Eddy County, New Mexico

Dear Mr. LeMay:

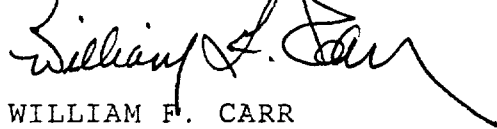
This letter is in response to Exxon's request for continuance dated September 21, 1988 of the hearing on the above-referenced application. As you are aware, Read & Stevens, Inc. proposes to drill a Morrow gas well 660 feet from the North and East lines of Section 19, Township 19 South, Range 29 East, N.M.P.M., Eddy County, New Mexico with the E/2 of this section to be dedicated to the well. This matter was originally docketed as Case No. 9353 and set for hearing on April 13, 1988. During the months that followed Read & Stevens, Inc. negotiated with Exxon in an effort to agree on a penalty for a well at this location, whereby the well could produce at a rate sufficient to enable Read & Stevens, Inc. to go forward with its plans to develop this property and at the same time to restrict its producing rates sufficiently to protect the rights of offsetting interest owners. These negotiations continued through August 29, 1988, but no agreement could be reached. Before 9:00 A.M. on August 30, 1988 Read & Stevens requested that the case be continued for an additional two weeks and advised Exxon of this request. Exxon advised the Examiner that their witnesses were in Santa Fe and opposed the continuance. The application was dismissed with leave to refile it at a later date.

On September 13, 1988 Read & Stevens, Inc. filed a new application seeking approval of this location and notified Exxon of the application. Exxon now wants to continue the case until November 9, 1988.

Mr. William J. LeMay  
Director  
September 26, 1988  
Page Two

Read & Stevens, Inc. vigorously opposes this request. Exxon not only gains an advantage each time they delay Read & Stevens' plans for development of this acreage, but now has delayed this matter to a point where Read & Stevens' leasehold interests are at risk. If the case is continued, it may not be possible for Read & Stevens to go forward with development of this acreage. This, of course, would achieve Exxon's objective. We submit, however, that actions of this nature would discourage development of resources in this State and impair the correlative rights of Read & Stevens. We urge you to deny the request for continuance.

Very truly yours,

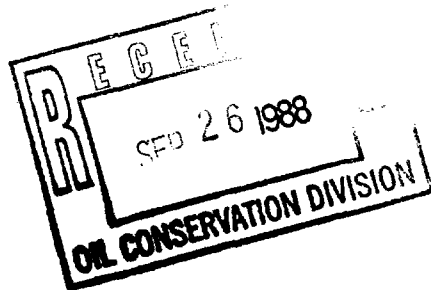


WILLIAM F. CARR

WFC:mlh

cc: ✓ Mr. Michael E. Stogner  
Mr. Charles B. Read  
Mr. W. Thomas Kellahin

Mr. Richard D. Goddard  
Regulatory Affairs Supervisor  
Exxon Company, U.S.A.  
Post Office Box 1600  
Midland, Texas 79702







STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS  
GOVERNOR

*Case No. 9500*

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

September 26, 1988

Exxon Company, USA  
P.O. Box 1600  
Midland, TX 79702-1600

Attention: Richard D. Goddard  
Regulatory Affairs Supervisor

RE: Case No. 9500 - Application of  
Read & Stevens, Inc. for an  
unorthodox gas well location,  
Eddy County, New Mexico

Dear Mr. Goddard:

Your request by letter dated September 21, 1988 to continue the subject Read & Stevens, Inc. Case No. 9500 from the Examiner's Hearing scheduled for October 12, 1988 to November 9, 1988 is hereby denied.

Sincerely,

Michael E. Stogner  
Chief Hearing Officer/Engineer

MES/ag

cc: Case No. 9500 File  
W. Thomas Kellahin - Santa Fe  
William F. Carr - Santa Fe  
Charlie Read, Read & Stevens, Inc. - Roswell



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS  
GOVERNOR

December 14, 1988

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO 87504  
(505) 827-5800

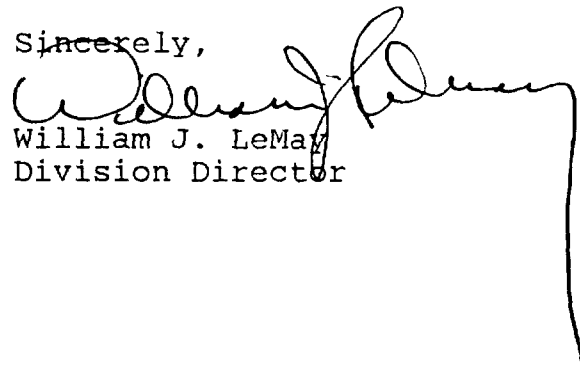
William F. Carr  
Campbell & Black, P.A.  
110 N. Guadalupe  
Suite 1  
Santa Fe, N.M. 87504-2208

Re: Division Order No. R-8804, Case No. 9500

Dear Mr. Carr:

Reference is made to your letter dated December 12, 1988, requesting clarification of the method to be used in determining the production penalty to be applied to the subject well. It is the sole intent of Finding No. (23) in Order No. R-8804, to establish and affirm that the reasonably expected maximum flow rate is approximately 42.24% of the calculated absolute open flow potential. As indicated in Ordering Paragraph No. (4), the production for the subject well shall be limited to 33% of 42.24% of the CAOF established by test as required by Rule 401 of the General Rules and Regulations. No other method of calculating allowable production shall apply.

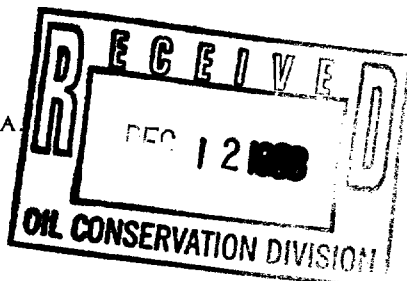
Sincerely,

  
William J. LeMay  
Division Director

xc: Case File: 9500

CAMPBELL & BLACK, P.A.  
LAWYERS

JACK M. CAMPBELL  
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December 12, 1988

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. 9500  
In the Matter of the Application of Read & Stevens, Inc.  
for an Unorthodox Gas Well Location, Eddy County, New  
Mexico

Dear Mr. LeMay:

Order No. R-8804 which was entered in the above-referenced case on  
December 8, 1988 includes the following Finding of Fact:

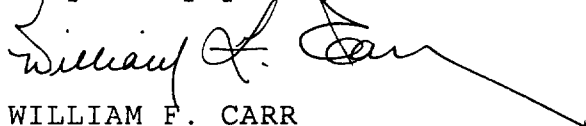
(23) The applicant should be limited each  
month to 33% of the reasonably expected  
maximum flow rate, or 33% of 42.24% of the  
CAOF, but such limit should not be less than  
500 MCF per day.

It is our understanding that this paragraph is intended to limit  
production from the subject well from 33% of 42.24% of the well's  
calculated absolute open flow and is not intended to authorize  
alternative methods of calculating this penalty.

Read & Stevens requests that, if this understanding is correct, you  
confirm this interpretation to us in writing.

Your attention to this request is appreciated.

Very truly yours,

  
WILLIAM F. CARR

WFC:mlh

cc: Mr. Charles Read  
Read & Stevens

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

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

CASE NO. 9500  
Order No. R-8804

APPLICATION OF READ & STEVENS,  
INC. FOR AN UNORTHODOX GAS WELL  
LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 12, 1988, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 8th day of December, 1988, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Read & Stevens, Inc., seeks approval of an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 19, Township 19 South, Range 29 East, NMPM, Undesignated Turkey Track-Morrow Gas Pool or Undesignated West Parkway-Morrow Gas Pool, Eddy County, New Mexico.

(3) The applicant further proposes to dedicate a standard 320-acre gas spacing and proration unit consisting of the E/2 of said Section 19 to the subject well.

(4) Exxon Company, USA, (Exxon) who currently operates an Upper Pennsylvanian producing well in the NE/4 of Section 18, Township 19 South, Range 29 East, NMPM, and Hondo Drilling Company, (Hondo) who currently operates a Morrow producing well in the SW/4 of Section 17, Township 19 South, Range 29 East, NMPM,

-2-

Case No. 9500

Order No. R-8804

both appeared at the hearing in opposition to the application.

(5) The applicant presented geologic evidence which indicates that the C, E, G, and F sand members of the Morrow formation are the prospective producing intervals underlying the proposed proration unit.

(6) The applicant further presented net sand isopach maps of the respective C, E, G, and F sand members which further indicate that a well at the proposed location should encounter a greater amount of net sand within the middle Morrow than a well drilled at a standard location in the NE/4 of said Section 19.

(7) The applicant seeks authority to drill the subject well at the proposed location in order to increase the chance of obtaining commercial production and further testified that denial of the application will likely result in a well not being drilled in the E/2 of said Section 19.

(8) Exxon also presented geologic evidence and testimony which varies significantly from the applicant's interpretation and which indicates that a well drilled at the proposed location is less likely to encounter a greater amount of net sand within the middle Morrow than a well drilled at a standard location in the NE/4 of said Section 19.

(9) Both geologic interpretations indicate that the NE/4 of said Section 19 is likely to contain commercial quantities of gas within the Morrow formation.

(10) Although the presence, extent, and the trending of the sand members within the Morrow formation underlying the E/2 of said Section 19 are highly subject to interpretation as demonstrated by both parties' geologic presentations, the evidence in this case generally favors the applicant's geologic interpretation.

(11) Approval of the subject application will better enable the applicant to produce the gas underlying the proration unit and will protect correlative rights provided that a production penalty be imposed on the subject well.

(12) The closest standard Morrow well location in the NE/4 of said Section 19 would be 1980 feet from the North line and 660 feet from the East line.

(13) The proposed well location is 1320 feet (67%) closer to the northern end boundary than permitted by Division Rules and Regulations and is standard relative to the eastern side boundary of the proration unit.

(14) The applicant proposed that a production penalty of 33% (production factor of 0.67) be imposed on the subject well and applied against a 7-day deliverability test, said penalty based upon the proposed well location's average north-south and east-west variance from a standard well location.

(15) The applicant further proposed that the subject well be allowed to produce a minimum of 500 MCF gas per day, said minimum allowable based upon economic parameters which would allow the applicant to obtain a suitable rate of return on its investment.

(16) Exxon proposed that a production penalty of 67% (production factor of 0.33) be imposed on the subject well and applied against the average deliverability of Morrow producing wells in this area, said penalty based upon the proposed well location's north-south variance from a standard well location.

(17) The penalty imposed on the subject well should be based upon the proposed well location's north-south variance from a standard well location inasmuch as the opponents' affected acreage lies to the north and northeast of the proposed well location.

(18) An allowable factor for Morrow production of 0.33 for the subject well (a penalty of 67%) will prevent waste and protect the correlative rights of the applicant as well as other operators in the Morrow formation and should, therefore, be approved.

(19) In the absence of any special rules and regulations for the proration of production from the Morrow formation in which the subject well will be completed, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by back pressure test and data extracted from Division records.

-4-

Case No. 9500  
Order No. R-8804

(20) The evidence presented indicates that the proposed minimum allowable of 500 MCF gas per day is fair and reasonable and should therefore be approved.

(21) The evidence presented further indicates that there are numerous Morrow producing wells in this area, some producing from the Turkey Track-Morrow Gas Pool and some producing from the West Parkway-Morrow Gas Pool.

(22) Well test and production data obtained from Division records indicate that the average calculated absolute open flow (CAOF) of Morrow producing wells located within a two-mile radius of the proposed well location is approximately 3236 MCFD. The average deliverability of these wells (determined from best month's production) is approximately 1367 MCFD, or 42.24% of CAOF.

(23) The applicant should be limited each month to 33% of the reasonably expected maximum flow rate, or 33% of 42.24% of the CAOF, but such limit should not be less than 500 MCF per day.

(24) In the event the subject well is completed in another formation and/or pool developed on 320-acre spacing, the Director of the Division should have the authority to reopen this case to determine an appropriate production penalty for said formation.

(25) Approval of the subject application subject to the above provisions and limitations will afford the applicant the opportunity to produce its just and equitable share of the gas in the Morrow reservoir, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Read & Stevens, Inc., is hereby authorized to drill a well at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 19, Township 19 South, Range 29 East, NMPM, Undesignated Turkey Track-Morrow Gas Pool or Undesignated West Parkway-Morrow Gas Pool, Eddy County, New Mexico.

-5-

Case No. 9500  
Order No. R-8804

(2) The E/2 of said Section 19 shall be dedicated to the above described well.

(3) The subject well is hereby assigned a production limitation factor of 0.33 for Morrow gas production.

(4) In the absence of any special rules and regulations prorating gas production in the subject Morrow Pool(s), the well's production each day of the first year's production shall be limited to 33% of 42.24% of the CAOF established by test as required by Rule 401 of the General Rules and Regulations, or to 500 MCF gas per day, whichever is greater.

(5) Before October 1st each year following the well's completion, the shut-in pressure shall be measured and reported as required by General Rule 402, and a new CAOF shall be calculated based on the revised shut-in pressure so as to establish a revised maximum flow rate as described in Ordering Paragraph No. (4) above until such penalized flow rate becomes less than 500 MCF gas per day. The revised penalized flow rate shall become effective November 1. In the event of failure to establish a satisfactory slope of the 4-point test required in Ordering Paragraph No. (4) above, a slope of 0.730 shall be used in calculating CAOF.

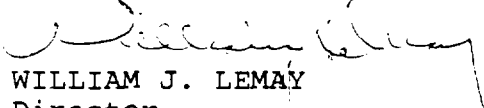
(6) Production during any month at a rate less than the limitation described above shall not be carried forward as underproduction into succeeding months, but overproduction of such limitation during any month shall be made up in the next succeeding month or months by shut-in or reduced rates as required by the District Supervisor of the Division.

(7) In the event the subject well is completed in another formation and/or pool developed on 320-acre spacing, the Director of the Division shall have the authority to reopen this case to determine an appropriate production penalty for said formation.

(8) 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 DIVISION

  
WILLIAM J. LEMAY  
Director



STATE OF NEW MEXICO  
ENERGY AND MINERALS DEPARTMENT  
OIL CONSERVATION DIVISION

GARREY CARRUTHERS  
GOVERNOR

December 9, 1932

POST OFFICE BOX 2088  
STATE LAND OFFICE BUILDING  
SANTA FE NEW MEXICO 87501  
(505) 827-6800

Mr. William F. Carr  
Campbell & Black  
Attorneys at Law  
Post Office Box 2208  
Santa Fe, New Mexico

Re: CASE NO. 9500  
ORDER NO. P-3304

Applicant:

Read & Stevens, Inc.

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Division order recently entered in the subject case.

Sincerely,

*Florene Davidson*

FLORENE DAVIDSON  
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD X  
Artesia OCD X  
Aztec OCD

Other Thomas Kellahin, Ernest Carroll