

**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. 10847
Order No. R-10018**

**APPLICATION OF MITCHELL ENERGY CORPORATION
FOR AN EXCEPTION TO RULE (2) OF THE SPECIAL
RULES AND REGULATIONS FOR THE NORTH OSUDO-
MORROW GAS POOL TO ALLOW A SECOND WELL ON A
PRORATION UNIT, OR IN THE ALTERNATIVE, TO
ESTABLISH INFILL DRILLING PROCEDURES FOR
SAID POOL, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 7, 1993, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 16th day of November, 1993, 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, Mitchell Energy Corporation, seeks an exception to Rule No. (2) of the Special Rules and Regulations for the North Osudo-Morrow Gas Pool, as promulgated by Division Order No. R-3305, as amended, to allow an existing 640-acre standard proration unit comprising Section 30, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico, to be simultaneously dedicated to the applicant's proposed Union State Well No. 3 to be drilled at a standard gas well location 1980 feet from the South line and 1650 feet from the West line (Unit K), and to the existing Mitchell Energy Corporation Union State Well No. 2 located in the NE/4 NE/4 of Section 30.

(3) IN THE ALTERNATIVE, the applicant seeks to amend Rule No. (2) of the Special Rules and Regulations for the North Osudo-Morrow Gas Pool to provide that a second well may be drilled within a standard 640-acre spacing unit but on a governmental quarter section not containing the first well.

(4) Rule No. (2) of the Special Rules and Regulations for the North Osudo-Morrow Gas Pool provides that a well shall be located on a standard unit containing 640 acres, more or less, consisting of a governmental section.

(5) Current Division policy regarding the drilling of a second well on a standard gas proration unit within a non-prorated gas pool is outlined in Division Memorandum dated August 3, 1990 regarding Rule 104 (C)(II) of the General Rules and Regulations, which in part states that "Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced".

(6) The North Osudo-Morrow Gas Pool currently comprises Sections 30, 32 and the E/2 of Section 31, Township 19 South, Range 36 East, and Sections 6, 7, 16, 17, 18, 19, 20, 29, and 30, Township 20 South, Range 36 East, NMPM.

(7) There are currently five wells producing from said pool, the Boyd & McWilliams Energy Group, Inc. Osudo State Com Well No. 1 located in Unit J of Section 18, the Lanexco Inc. State "JD" Com Well No. 1 located in Unit K of Section 29, the Marathon Oil Company Osudo State Com Well No. 1 located in Unit D of Section 29, the aforesaid Union State Well No. 2, all in Township 20 South, Range 36 East, and the Nearburg Producing Company Leo "30" Federal Com Well No. 1 located in Unit J of Section 30, Township 19 South, Range 36 East.

(8) Nearburg Producing Company appeared through counsel at the hearing but presented no evidence or testimony. Nearburg's position in this case, as stated through counsel at the hearing, is that it has no objection to the applicant obtaining an exception to Rule No. (2) thereby allowing the drilling of a second well in Section 30; however, it has serious concerns and is objectionable to amending Rule No. (2) to allow infill drilling within the pool.

(9) According to applicant's geologic evidence and testimony, the Morrow formation contains three distinct producing intervals within the subject pool, these being identified as the Upper, Middle and Lower Morrow intervals. Applicant's Union State Well No. 2 is currently completed in and producing from the Upper and Lower Morrow intervals only.

(10) Applicant's geologic evidence indicates that all three Morrow producing intervals, which trend in a general northeast to southwest direction, are significantly thicker at the proposed location of the Union State Well No. 3 than were encountered within the Union State Well No. 2.

(11) The evidence presented indicates that Section 30 was initially developed in the North Osudo-Morrow Gas Pool by the Jake L. Hamon Union State Well No. 1 which was drilled and completed in the Morrow formation in 1966. Evidence presented and Division records indicate that this well cumulatively produced 5.94 BCF gas and 29,950 barrels of oil from the Upper and Middle Morrow intervals prior to being temporarily abandoned in October, 1979, and ultimately plugged and abandoned in 1980.

(12) Division records further indicate that the Union State Well No. 2 was drilled and completed in the North Osudo-Morrow Gas Pool in 1979 and has cumulatively produced approximately 2.8 BCF gas. The Union State Well No. 2 is currently producing approximately 58 MCF gas per day.

(13) Applicant estimates that the remaining recoverable gas reserves for the Union State Well No. 2 are approximately 134 MMCFG.

(14) Applicant's engineering evidence indicates that the Union State Well Nos. 1 and 2 have or ultimately will drain areas of approximately 196 acres and 109 acres, respectively.

(15) Applicant's engineering evidence further indicates that a substantial portion of Section 30 will not be drained and developed in the North Osudo-Morrow Gas Pool by the aforesaid Union State Well Nos. 1 and 2.

(16) While evidence concerning the drainage area of the proposed Union State Well No. 3 is unavailable, the engineering drainage evidence presented by the applicant in this case generally indicates that both the Union State Well Nos. 2 and 3 are necessary in order to effectively drain and develop the North Osudo-Morrow Gas Pool underlying Section 30.

(17) Testimony by the applicant indicates that there are several proration units within the North Osudo-Morrow Gas Pool which have historically been developed by more than one well.

(18) The only production from the North Osudo-Morrow Gas Pool directly offsetting Section 30 occurs in Section 29. Within Section 29 there are currently two wells producing from the subject pool, these being the aforesaid Lanexco Inc. State "JD" Com Well No. 1 located in Unit K and the Marathon Oil Company Osudo State Com Well No. 1 located in Unit D.

(19) The State "JD" Com Well No. 1 and the Osudo State Com No. 1 are currently dedicated to 320-acre non-standard gas proration units comprising the S/2 and N/2 of Section 29, respectively.

(20) Applicant estimates that the drainage area of the Marathon Oil Company Osudo State Com Well No. 1 is approximately 368 acres. The drainage area of the Osudo State Com Well No. 1 encompasses virtually the entire area currently being drained by the Union State Well No. 2.

(21) If the applicant is not allowed to produce the Union State Well No. 2 concurrently with the proposed Union State Well No. 1, it is likely that a portion of Section 30 will experience drainage by the aforesaid Osudo State Com Well No. 1.

(22) The applicant has adequately demonstrated that unless both wells are concurrently produced, its correlative rights will be violated by virtue of not being able to recover all of its gas reserves within Section 30.

(23) No other offset operator and/or interest owner appeared at the hearing in opposition to the application.

(24) The geologic and engineering evidence and testimony presented by the applicant in this case is insufficient to amend the Special Rules and Regulations for the North Osudo-Morrow Gas Pool; however, the evidence is sufficient to grant an exception to Rule No. (2) of the Special Rules and Regulations to allow the applicant to drill its Union State Well No. 3 and concurrently produce both its Union State Well Nos. 2 and 3.

IT IS THEREFORE ORDERED THAT:

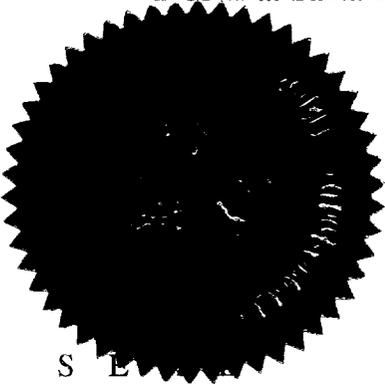
(1) The applicant, Mitchell Energy Corporation, is hereby authorized to simultaneously dedicate an existing 640-acre standard proration unit comprising Section 30, Township 20 South, Range 36 East, NMPM, North Osudo-Morrow Gas Pool, Lea County, New Mexico, to its existing Union State Well No. 2 located in the NE/4 NE/4, and to its proposed Union State Well No. 3 to be drilled at a standard gas well location 1980 feet from the South line and 1650 feet from the West line (Unit K).

(2) The applicant is further authorized to produce the Union State Well Nos. 2 and 3 concurrently.

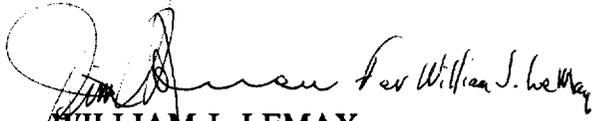
(3) Jurisdiction of this cause is hereby retained for the entry of such further orders as the Division may deem necessary.

CASE NO. 10847
Order No. R-10018
Page -5-

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



STATE OF NEW MEXICO
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WILLIAM J. LEMAY
Director