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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

November 5, 1993

- 5 1993

HAND DELIVERED

Mr. William J. LeMay
Oil Conservation Division
State Land Office Building
310 Old Santa Fe Trail, 2nd Floor
Santa Fe, New Mexico 87501

10881

Re: Application of Conoco Inc. to Amend
Rule 5(b) and Rule 6 of the Special
Rules and Regulations for the South
Dagger Draw-Upper Pennsylvanian Pool
(Division Order R-5353), and for the
Extension of said Pool,
Eddy County, New Mexico.

Dear Mr. LeMay:

On behalf of Conoco Inc., please find enclosed our
referenced application which we request be set for
hearing on the next available Examiner's docket now
scheduled for December 2, 1993.

By copy of this letter and application, sent
certified mail, we are notifying all interested parties
of their right to appear at the hearing and participate
in this case, including the right to present evidence
either in support of or in opposition to the application
and that failure to appear at the hearing may preclude
them from any involvement in this case at a later date.

Mr. William J. LeMay
November 5, 1993
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Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, November 26, 1993, with a copy delivered to the undersigned.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin

WTK/mg
Enclosure

cc: **By Certified Mail - Return Receipt**
All Interested Parties as Required by
NMOCD Notification Rules

PROPOSED ADVERTISEMENT

CASE 10881 Application of Conoco Inc. to Amend Rule 5(b) and Rule 6 of the Special Rules and Regulations for the South Dagger Draw Upper Pennsylvanian Pool (Division Order R-5353), and for the extension of said Pool, Eddy County, New Mexico. Applicant seeks an amendment to Rule 5(b) of Order R-5353 thereby authorizing simultaneous dedication of both gas wells and oil wells to the same spacing unit and an amendment to Rule 6 of Order R-5353 to reduce the limiting gas-oil ratio to 4,500 cubic feet of gas for each barrel of oil produced in said pool. Applicant further seeks the extension of said pool to include E/2 Section 16, E/2 Section 34, and all of Section 35, T20S, R24E and all of Sections 34 and 35, T20-1/2S, R23E, Eddy County, New Mexico. The approximate center of said pool is located approximately 10 miles southeast from Hope, New Mexico.

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:

- 5 1993

APPLICATION OF CONOCO INC. TO AMEND RULE 5(B)
AND RULE 6 OF THE SPECIAL RULES AND REGULATIONS
FOR THE SOUTH DAGGER DRAW UPPER PENNSYLVANIAN POOL,
(DIVISION ORDER R-5353), FOR THE EXTENSION OF SAID POOL,
EDDY COUNTY, NEW MEXICO.

CASE NO. 10881

A P P L I C A T I O N

Comes now Conoco Inc., by their attorneys, Kellahin & Kellahin, and applies to the Oil Conservation Division of New Mexico for amendments to Rule 5(b) and to Rule 6 of the Special Rules and Regulations of the South Dagger Draw Upper Pennsylvanian Pool (Division Order R-5353), and for the extension of said pool and in support thereof states:

(1) There is an extensive dolomite fairway hydrocarbon reservoir in Eddy County, New Mexico, currently subdivided into three pools, the southern portion of which is structurally the highest and is classified as a gas pool being designated as the "Indian Basin Upper Pennsylvanian Gas Pool." The northern-most portion, which is structurally the lowest part of this extensive continuous dolomite reservoir, is classified as an oil pool and is designated as the "North Dagger Draw Upper Pennsylvanian Oil Pool."

(2) The middle portion of this continuous reservoir declines structurally from south to north and represents an extensive transition area from the gas pool to the south (Indian Basin) and the oil pool to the north (North Dagger Draw). This transitional area is classified as an associated oil-gas pool and is designated as the "South Dagger Draw-Upper Pennsylvanian Associated Pool."

(3) This middle, transitional pool ("South Dagger Draw Pool") presents special reservoir management problems associated with the inclusion of gas wells on the southern and western periphery of the pool, oil wells on the northern and eastern side, and a mixture of high GOR oil wells and gas wells through the middle of the pool, which cannot be resolved with traditional rules for either gas or oil pools.

(4) The South Dagger Draw Pool is currently defined as including 6720 acres in Township 20 South Range 24 East as updated by Order No. R-9837, February 1, 1993. Other acreage which contains wells that either have or are currently producing hydrocarbons that are being attributed to the South Dagger Draw production statistics by the Oil Conservation Division consists of the E/2 Section 16, E/2 Section 34, all of Section 35, S/2 Section 36, Township 20 South, Range 24 East and all of Section 34 and 35, Township 20-1/2 South, Range 23 East.

(5) Conoco Inc. has working interest in and operates both gas wells and oil wells in the South Dagger Draw Pool.

(6) The current rules for the Indian Basin Upper Penn Gas Pool provide for 640-acre gas spacing and proration units with the option for multiple gas wells in a single such unit.

(7) The current rules for the North Dagger Draw Upper Pennsylvanian Oil Pool provide for 160-acre spacing and proration units with the option for multiple oil wells in a single such unit.

(8) The current rules for the South Dagger Draw Pool provide for 320-acre proration and spacing units with the option for multiple oil wells BUT preclude the simultaneous dedication of both oil and gas wells to the same unit. (See applicable Rule 5(b) of Associated Pool Rules (Order R-5353)).

(9) The application of Rule 5(b) of Order R-5353 has and will continue to be an obstruction to the orderly and efficient development and proper depletion of the South Dagger Draw Pool thereby causing waste and violating correlative rights.

(10) Based upon current production data and engineering and geological reservoir evaluations, the current maximum gas allowable for a spacing unit in the South Dagger Draw Pool is probably not achievable by a single gas well and may result in the waste of oil reserves if applied to multiple gas wells in the same spacing unit.

(11) An amendment to Rule 5(b) of Order R-5353 authorizing the simultaneous dedication of both gas wells and oil wells to the same 320-acre spacing and proration unit is appropriate provided an amendment is also made to Rule 6 of Order R-5353 reducing the limiting GOR and thereby reducing gas allowables for proration and spacing units in the South Dagger Draw Pool.

(12) Rule 6 of Order R-5353 should be amended to establish a limiting GOR which matches the current average producing GOR of all wells that qualify to be classified as oil wells in the Pool in order to prevent excessive premature drainage of the gas cap and the waste of significant oil reserves.

(13) The current average producing GOR of all wells that qualify to be classified as oil wells under current pool rules in the South Dagger Draw Pool is approximately 4,500 cubic feet of gas for each barrel of oil produced. Amendment of Rule 6 of Order R-5353 to include a new limiting GOR of 4,500 to 1 would in effect establish a new maximum gas allowable of 6,300 MCFGPD per standard 320-acre proration and spacing unit and will afford the opportunity to adequately recover both oil and gas reserves without causing undue waste.

(14) Conoco proposes that Rule 5(b) and Rule 6 be amended for the South Dagger Draw Pool to include appropriate language to accomplish the following:

- (a) A maximum combination of eight oil and gas wells may be simultaneously dedicated to a 320-acre spacing and proration unit;
- (b) A new limiting GOR of 4,500 to 1 should be set for each standard 320-acre proration and spacing unit to avoid undue adverse affect on ultimate oil recovery;
- (c) The combined gas production from both oil and gas wells in a standard 320-acre spacing and proration unit in the Pool shall not exceed the maximum casinghead gas allowable of 6,300 MCFGPD as established by the new limiting GOR for the Pool.

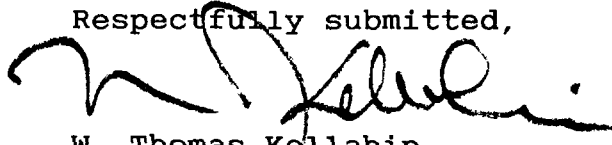
Conoco, Inc.
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(15) Conoco proposes that the current boundary of the Pool be extended to include the acreage described in paragraph (4) above.

(16) Notification of this application and request for hearing to be held on December 2, 1993, will be sent by certified mail return receipt to those interested parties identified as requiring notification according to NMOCD rules.

Wherefore, Applicants' request that, after notice and hearing, this application be granted.

Respectfully submitted,



W. Thomas Kellahin
Kellahin & Kellahin