

**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. 11020
Order No. R-10189**

**APPLICATION OF PALOMA RESOURCES,
INC. FOR SIMULTANEOUS DEDICATION
OR, IN THE ALTERNATIVE, POOL CREATION,
POOL CONTRACTION, AND FOR TWO NON-
STANDARD GAS PRORATION UNITS, CHAVES
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 18, 1994, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 19th day of September, 1994, 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, Paloma Resources, Inc., seeks an exception to Division General Rule No. 104 (C)(2) as outlined in Division Memorandum dated August 30, 1990, to authorize the concurrent production of its Peery Federal Well No. 2 located 660 feet from the South line and 1980 feet from the East line (Unit O), of Section 29, Township 15 South, Range 30 East, NMPM, and its Peery Federal Well No. 3 located 1820 feet from the South line and 2140 feet from the West line (Unit K) of said Section 29, from the Little Lucky Lake-Morrow Gas Pool. The applicant further seeks authority to simultaneously dedicate the above-described wells to an existing standard 320-acre gas spacing and proration unit comprising the S/2 of Section 29.

(3) IN THE ALTERNATIVE, the applicant seeks the contraction of the Little Lucky Lake-Morrow Gas Pool by deletion therefrom of the SE/4 of Section 29, and the concomitant creation of a new pool for Morrow production to comprise said acreage. The applicant further seeks to establish two 160-acre non-standard gas spacing and proration units for Morrow production comprising the SE/4 and SW/4 of Section 29, said units to be dedicated to the aforesaid Peery Federal Well No. 2 and the Peery Federal Well No. 3, respectively.

(4) Division Memorandum dated August 3, 1990 states in part 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 continuously and concurrently 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."

(5) According to the applicant's evidence and testimony, the history of the Peery Federal Well No. 2 is as follows:

- 1959- well was drilled by Texaco Inc. and completed in the Little Lucky Lake-Devonian Pool. Well produced from this pool until May, 1984.
- 1984- well was recompleted to the Morrow formation and produced for a period of only four months.
- April, 1992- well was purchased by the applicant from Texaco Inc.
- Feb, 1993 - applicant abandoned Morrow formation and recompleted in the Devonian formation. Well produced from the Little Lucky Lake-Devonian Pool until April, 1994.
- April, 1994- applicant abandoned the Devonian formation and recompleted the well in the Morrow formation.
- Current - well is producing from the Little Lucky Lake-Morrow Gas Pool.

(6) According to the applicant's evidence and testimony, the history of the Peery Federal Well No. 3 is as follows:

1959- well was drilled by Texaco Inc. and completed in the Little Lucky Lake-Devonian Pool. Well produced from this pool until September, 1975.

Oct, 1986- well was recompleted to the Morrow formation and commenced producing from the Little Lucky Lake-Morrow Gas Pool.

April, 1992- well was purchased by the applicant from Texaco Inc.

April, 1994- well was shut in after the recompletion of the Peery Federal Well No. 2.

(7) The geologic evidence presented by the applicant indicates that the Peery Federal Well No. 2 is currently producing from Morrow perforations from 9,992 feet to 10,006 feet. The Peery Federal Well No. 3 is currently capable of Morrow production from perforations located at 9,962 feet to 9,977 feet.

(8) The geologic evidence further indicates that:

- a) there are two distinct producing sand intervals in the Morrow formation in this area. These intervals, identified by the applicant as the Morrow "A" and "B" sand intervals, are separated by approximately 50 feet of impermeable shale and are therefore not in vertical communication;
- b) the Peery Federal Well No. 2 is presently completed in the Morrow "B" interval only and the Peery Federal Well No. 3 is presently completed in the Morrow "A" interval only.

(9) Geophysical data presented by the applicant further indicates that the Morrow "A" and "B" sand intervals within the SE/4 and SW/4 of Section 29 may be effectively isolated by the presence of a north-south trending fault.

(10) Applicant's engineering evidence and testimony indicates that the composition of the gas originating from the Morrow "A" interval is significantly different than that originating from the Morrow "B" interval.

(11) The engineering evidence further indicates that the bottomhole pressure of the Morrow "B" interval in the Peery Federal Well No. 2 is essentially virgin reservoir pressure (3407 psi.), while the bottomhole pressure of the Morrow "A" interval in the Peery Federal Well No. 3 is significantly lower at 271 psi.

(12) The evidence presented in this case indicates that the Peery Federal Well Nos. 2 and 3 are producing from distinct and separate intervals within the Little Lucky Lake-Morrow Gas Pool, and probably distinct and separate structures within the Morrow formation.

(13) The evidence presented effectively demonstrates that unless the Peery Federal Well Nos. 2 and 3 are allowed to produce concurrently, the applicant will be unable to drain and develop the gas reserves within the Morrow formation underlying the S/2 of Section 29.

(14) The only other operator in the pool, McClellan Oil Corporation, did not appear at the hearing in opposition to the application.

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

(16) Approval of the application will allow the applicant the opportunity to produce its just and equitable share of the gas in the Little Lucky Lake-Morrow Gas Pool and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Paloma Resources, Inc., is hereby authorized to simultaneously dedicate an existing 320-acre standard gas proration unit comprising the S/2 of Section 29, Township 15 South, Range 30 East, NMPM, Little Lucky Lake-Morrow Gas Pool, Chaves County, New Mexico, to its Peery Federal Well No. 2 located 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 29, and its Peery Federal Well No. 3 located 1820 feet from the South line and 2140 feet from the West line (Unit K) of Section 29.

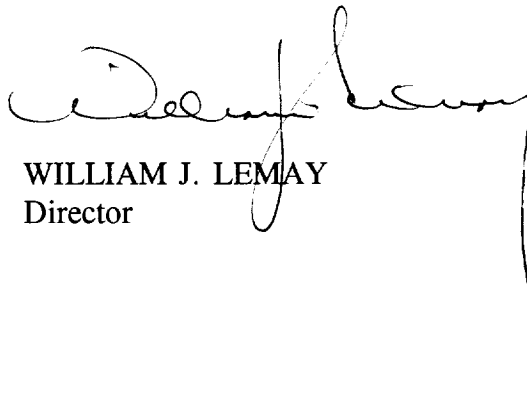
(2) The applicant is further authorized to produce its Peery Federal Well Nos. 2 and 3 concurrently.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read 'William J. Lemay', is written over the printed name and title. The signature is fluid and cursive, with a long vertical stroke extending downwards from the end of the name.

WILLIAM J. LEMAY
Director

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