

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:

**APPLICATION OF MATADOR PETROLEUM CORPORATION
FOR APPROVAL OF AN UNORTHODOX GAS WELL LOCATION
AND TO AMEND DIVISION ORDER NO. R-10872-B TO APPROVE
A STANDARD 600.01-ACRE GAS SPACING AND PRORATION
UNIT, EDDY COUNTY, NEW MEXICO.**

Case No. 12034

**APPLICATION OF TEXACO EXPLORATION AND PRODUCTION
INC. FOR COMPULSORY POOLING, AN UNORTHODOX GAS
WELL LOCATION, AND NON-STANDARD GAS SPACING AND
PRORATION UNITS, EDDY COUNTY, NEW MEXICO.**

Case No. 12051

**APPLICATION OF TEXACO EXPLORATION AND PRODUCTION
INC. FOR COMPULSORY POOLING, AN UNORTHODOX GAS
WELL LOCATION, AND NON-STANDARD GAS SPACING AND
PRORATION UNITS, EDDY COUNTY, NEW MEXICO.**

Case No. 12105

Order No. R-10872-C

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on December 3 and 17, 1998 and on January 7, 1999, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 2nd day of April, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of these cases and their subject matter.

(2) In Case No. 12034, the applicant, Matador Petroleum Corporation (“Matador”), seeks to amend Division Order No. R-10872-B, issued by the New Mexico Oil Conservation Commission in consolidated Cases No. 11723 (De Novo), 11755 (De Novo), and 11868 and dated December 11, 1997, by establishing a standard 600.01-acre gas spacing and proration unit comprising Lots 11 through 14, 25 through 32, and the SW/4 (lower two-thirds equivalent) of irregular Section 1, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico in the Catclaw Draw-Morrow Gas Pool. This unit is to be simultaneously dedicated to the existing Catclaw Draw “1” Federal Well No. 1 (**API No. 30-015-30123**), which is currently operated by Mewbourne Oil Company (“Mewbourne”), located at an unorthodox gas well location 660 feet from the South line and 2310 feet from the East line (Unit V) of Section 1 and to the proposed Avalon Federal Well No. 2 (**API No. 30-015-29730**) to be drilled at an unorthodox infill gas well location 2080 feet from the South line and 750 feet from the West line (Unit T) of Section 1. Matador further seeks approval of the proposed Avalon Federal Well No. 2 as an unorthodox gas well location within a 297.88-acre lay-down gas spacing and proration unit comprising Lots 29 through 32 and the SW/4 (bottom one-third equivalent) of Section 1 for any and all formations and/or pools from the top of the Wolfcamp formation to the top of the Catclaw Draw-Morrow Gas Pool developed on 320-acre spacing, which currently include the Undesignated Springs-Upper Pennsylvanian Gas Pool, Undesignated Avalon-Strawn Gas Pool, Undesignated East Catclaw Draw-Strawn Gas Pool, and Undesignated Avalon-Atoka Gas Pool.

(3) In Case No. 12051, the applicant, Texaco Exploration and Production Inc. (“Texaco”), seeks an order pooling all mineral interests within the Upper Pennsylvanian and Morrow intervals underlying the following described acreage in Section 1, in the following manner:

- (a) Lots 11 through 14 and 17 through 28 (upper two-thirds equivalent) to form a 555.74-acre gas spacing and proration unit for any pool developed on 640-acre spacing within that vertical extent, which presently includes only the Catclaw Draw-Morrow Gas Pool; and
- (b) Lots 11 through 14 and 19 through 22 to form a 288.19-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include the Undesignated McMillan-Cisco Gas Pool and Undesignated Springs-Upper Pennsylvanian Gas Pool.

Both units are to be dedicated to Texaco’s proposed Rocky Arroyo Federal Com. Well No. 1 to be drilled at an unorthodox gas well location 3200 feet from the North line and 660 feet from the West line (Lot 13/Unit M) of Section 1.

(4) In Case No. 12105 Texaco seeks an order pooling all mineral interests from the base of the Wolfcamp formation to the base of the Morrow formation underlying the following described acreage in Section 1, in the following manner:

- (a) all of Section 1 to form a non-standard 853.62-acre gas spacing and proration unit for any pool developed on 640-acre spacing within that vertical extent, which presently includes only the Catclaw Draw-Morrow Gas Pool; and
- (b) Lots 11 through 14 and 19 through 22 to form a 288.19-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent, which presently include the Undesignated McMillan-Cisco Gas Pool and Undesignated Springs-Upper Pennsylvanian Gas Pool.

Both units are to be dedicated to Texaco's proposed Rocky Arroyo Federal Com. Well No. 1 to be drilled at an unorthodox gas well location 3200 feet from the North line and 660 feet from the West line (Lot 13/Unit M) of Section 1.

(5) These three cases were consolidated for the purpose of presenting testimony and, since all three involve the same acreage and subject matter, one order should be entered.

(6) Matador, Texaco, Mewbourne, and Penwell Energy, Inc. ("Penwell") all entered appearances at the hearings in these cases.

(7) The Catclaw Draw-Morrow Gas Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 25 EAST, NMPM

Irregular Section 1:	All
Irregular Section 2:	Lots 9 through 16 and S/2
Sections 11 through 14:	All
Sections 23 through 28:	All
Sections 34 through 36:	All

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMPM

Section 19:	All.
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(8) The Catclaw Draw-Morrow Gas Pool is governed by the "*General Rules and Regulations for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Catclaw Draw-Morrow Gas Pool*," as set forth in Division Order No. R-8170, as amended, which requires standard 640-acre gas spacing and proration units with wells to be located no

closer than 1650 feet from the outer boundary of a proration unit nor closer than 330 feet from any governmental quarter-quarter section or subdivision inner boundary. However, Division Order No. R-10328, issued in Case No. 11211 and dated March 27, 1995, suspended prorationing (the assignment of gas allowables) in the Catclaw Draw-Morrow Gas Pool. All other rules, regulations, and policies governing this pool, including the authorization for infill wells, remained in effect [see Ordering Paragraph No. (4) of Division Order No. R-10872-B].

(9) All other gas bearing intervals from the top of the Wolfcamp formation to the top of the Catclaw Draw-Morrow Gas Pool, which include the Undesignated Springs-Upper Pennsylvanian Gas Pool, Undesignated McMillan-Cisco Gas Pool, Undesignated Avalon-Strawn Gas Pool, Undesignated East Catclaw Draw-Strawn Gas Pool, and Undesignated Avalon-Atoka Gas Pool, are subject to either Division Rule 104.B(1)(a) or 104.C(2)(b).

(10) Section 1 comprises a total area of 853.62 acres consisting of six rows each containing four lots and/or quarter-quarter sections, being legal governmental subdivisions, therein [See Finding Paragraph No. (6) in Division Order No. R-10833, issued in Case Nos. 11716, 11717, 11739, 11740, 11741, and 11753, dated May 22, 1997, on the subject of irregular sized and shaped sections]. For the purpose of this order the proposed 600.01-acre unit sought by Matador and the 555.74-acre unit sought by Texaco will be considered "standard" sized units for the Catclaw Draw-Morrow Gas Pool since both are confined to a single section, "consist of contiguous surface acreage," are configured "substantially in the form of a square," and, as nearly as possible, contain the appropriate amount of acreage (640) [see Rule 2(a)2 of Division Order No. R-8170]. Also, the proposed 297.88-acre lay-down unit sought by Matador and the 288.19-acre stand-up unit sought by Texaco can be considered standard pursuant to Division Rules 104.B(1)(a) and 104.C(2)(b) since both are confined to a single section, are rectangular in shape, comprise two contiguous quarter sections, or equivalents, and, as nearly as possible, contain the appropriate amount of acreage (320).

(11) On April 3 and May 1, 1997, the Division heard:

- (a) Case No. 11723 in which Mewbourne sought approval of a non-standard 297.88-acre gas spacing and proration unit (bottom one-third equivalent) for Catclaw Draw-Morrow Gas Pool production comprising Lots 29, 30, 31, and 32 and the SW/4 (S/2 equivalent) of Section 1 for its well to be drilled at an unorthodox gas well location 660 feet from the South line and 2310 feet from the East line (Lot 31/Unit W) of Section 1; and
- (b) Case 11755 in which Fasken Oil and Ranch, Ltd. ("Fasken") sought approval of the same non-standard 297.88-acre gas spacing and proration unit for Catclaw Draw-Morrow Gas Pool production for its

well proposed to be drilled at an unorthodox gas well location 2080 feet from the South line and 750 feet from the West line (Unit T) of Section 1.

(12) On September 12, 1997, the Division entered Order R-10872, which approved the Fasken application, denied the Mewbourne location and approved the formation of the above-described 297.88 acre non-standard gas spacing and proration unit because a full sized, as nearly as possible, standard shaped 640-acre spacing and proration unit cannot be formed within this irregularly shaped section since the needed acreage will not be offered by the U.S. Bureau of Land Management for mineral leasing."

(13) In addition, Order R-10872 included the following finding:

"(10) Section 1 of Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico comprises a total area of 853.62 acres consisting of a row of six lots and/or quarter-quarter sections being a legal governmental subdivision therein....A spacing and proration unit for either of the requested well locations that would be considered "standard" pursuant to the rules and regulations governing the Catclaw Draw-Morrow Gas Pool would need to incorporate the Lots 11, 12, 13, 14, 25, 26, 27, 28, 29, 30, 31 and 32 and the SW/4 of said Section 1. Even though this area comprises a total of 600.01 acres said area would satisfy the Division's requirements for the formation as near as possible of a standard sized and shaped drilling tract. Also, the oil and gas mineral rights underlying this 600.01 acre drilling tract is under the jurisdiction of the United States government. HOWEVER, the 302.13 acre area that comprises Lots 11, 12, 13, 14, 15, 16, 17 and 28 of said Section 1 is currently an unleased federal tract that is under additional wildlife restrictions that makes the leasing of this particular area from the U.S. Bureau of Land Management impossible at this time."

(14) Immediately to the south of Section 1, Texaco operates a standard 632.36-acre gas spacing and proration unit within the Catclaw Draw-Morrow Gas Pool, which comprises all of Section 12, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico, and is currently dedicated to its:

- (a) E. J. Levers Federal "NCT-1" Well No. 1 (**API No. 30-015-20683**) located at a previously approved unorthodox gas well location [approved by Ordering Paragraph No. (6) of Division Order No. R-

4157-D, dated June 21, 1971] 660 feet from the South line and 1980 feet from the West line (Lot 14/Unit N) of Section 12; and,

- (b) E. J. Levers Federal "NCT-1" Well No. 2 (**API No. 30-015-28644**) located at a standard gas well location 2448 feet from the North line and 1980 feet from the West line (Lot 6/Unit F) of Section 12.

(15) In December, 1997, the New Mexico Oil Conservation Commission entered Order R-10872-B which: (i) clarified that two wells were allowed in a standard 640-acre unit in this pool; (ii) authorized Mewbourne to drill the Catclaw Draw "1" Federal Well No. 1 at its proposed unorthodox gas well location; (iii) set a 40% allowable [60% penalty factor] on Catclaw Draw-Morrow Gas Pool production for this well's productive capability into a pipeline as measured semi-annually; (iv) provided a minimum of one million cubic feet of gas per day as the lower or economic limit to be imposed on this well; (v) denied the Fasken location if the Mewbourne well was actually drilled; and (vi) confirmed the Division's approval of this 297.88 acre non-standard gas spacing and proration unit (bottom one-third equivalent) in Section 1 for the Catclaw Draw-Morrow Gas Pool.

(16) In accordance with Order R-10872-B, Mewbourne drilled and completed the Catclaw Draw "1" Federal Well No. 1 and is the current Division-designated operator for this 297.88-acre non-standard gas spacing and proration unit in the Catclaw Draw-Morrow Gas Pool. Further, this unit is currently subject to a Joint Operating Agreement, AAPL-1956 Model Form, dated April 1, 1970 which includes Fasken, Matador, and Devon Energy Corporation ("Devon") as non-operators.

(17) Catclaw Draw-Morrow gas production from the Catclaw Draw "1" Federal Well No. 1 is marginal that has been subject to the lower limit provision of Order No. R-10872-B.

(18) In July, 1998, the U. S. Bureau of Land Management changed its practice concerning the leasing of the 302.13-acre area comprising Lots 11 through 14 and 25 through 28 (middle one-third equivalent) of Section 1 and approved this tract for sale by listing it in the competitive oil and gas lease sale.

(19) Fasken was the successful bidder for this lease with the working interest therein now shared among Fasken, Devon, and Matador.

(20) By letter dated July 30, 1998, Texaco proposed its Rocky Arroyo Federal Com Well No. 1 as a Morrow gas test to be dedicated to a non-standard 555.74-acre gas spacing and proration unit consisting of Lots 11 through 14 and 17 through 28 (upper two-thirds equivalent) of Section 1.

(21) On August 12, 1998, Matador filed its application in Case 12034 seeking an amendment to Order R-10872-B so that the Fasken location that was the subject of Case No. 11755 (proposed Avalon Federal Well No. 2) could now be drilled and to combine the middle one-third and the bottom one-third of Section 1 to form a standard spacing and proration unit pursuant to the rules governing the Catclaw Draw-Morrow Gas Pool.

(22) The Application for Permit to Drill ("APD") for the proposed Avalon Federal Well No. 2 has been approved and extended to June 25, 1999.

(23) On August 25, 1998, Texaco filed its compulsory pooling application for the upper two-thirds of Section 1 based upon its July 30, 1998 well location and the application was docketed as Case 12051.

(24) On August 26, 1998, Texaco asked the Division to consolidate its case with the Matador case and asked that the consolidated cases be heard on September 17, 1998.

(25) On September 1, 1998, Matador concurred in the consolidation and, by agreement of counsel, these cases were continued to October 8, 1998.

(26) On September 9, 1998, at the request of Melbourne's attorney and with the concurrence of counsel, these two cases were continued to November 5, 1998. Both cases were further continued at the November 5, 1998 hearing until finally these cases were set for hearing on December 3, 1998.

(27) On Tuesday, November 25, 1998, counsel for Texaco and counsel for Matador exchanged data in preparation for the hearing on December 3, 1998.

(28) On Wednesday, November 25, 1998, Texaco's counsel delivered to Matador's counsel Texaco's amended application which sought to continue Texaco's case to December 17, 1998 and to include its request that the Division enter a compulsory pooling for all of Irregular Section 1 for a well to be drilled by Texaco. This amendment was mistakenly docketed as a separate case (No. 12105).

(29) By letter agreement dated December 1, 1998, all of the working interest owners reached a voluntary agreement for the consolidation of the lower two-thirds of this section and for the drilling of the Fasken location.

(30) On December 3, 1998, Matador presented its evidence and witnesses and the case was continued to the hearing scheduled for January 7, 1999 at which Texaco was to present its evidence and witnesses.

(31) On January 7, 1999, Texaco declined to present any evidence or witnesses and requested that the case be taken under advisement based upon the evidence presented on December 3, 1998.

(32) Penwell advised that it would waive objection to the unorthodox well locations.

(33) The geological and engineering testimony presented by Matador indicates that the proposed location of the Avalon Federal Well No. 2 will intersect the Morrow gas-bearing interval at a more favorable geologic position than a standard location, thereby increasing the likelihood of obtaining commercial gas production within the proposed 600.01-acre unit. Further, Matador presented production and engineering data which demonstrate that the existing Catclaw Draw "1" Federal Well No. 1 is draining Morrow gas reserves from a limited area within the SW/4 of Section 1. Therefore, the proposed Avalon Federal Well No. 2 in Unit "T" is necessary to produce the recoverable reserves in the Morrow formation underlying the lower two-thirds of Section 1 thereby preventing waste.

(34) The formation of this 600.01-acre standard gas spacing and proration unit is a reasonable request because:

- (a) a full sized, as nearly as possible, standard shaped 640-acre spacing and proration unit can now be formed within this irregularly shaped section because the needed acreage has been offered by the U. S. Bureau of Land Management for mineral leasing;
- (b) the formation of the requested 600.01-acre standard gas spacing and proration unit is in the best interest of conservation, will serve to prevent waste, and should therefore be approved; and
- (c) the formation of a spacing unit comprising the southern two-thirds of this section best conforms to the potentially productive reservoir in the Morrow formation.

(35) The simultaneous dedication of the proposed 600.01-acre unit to the (i) existing Catclaw Draw "1" Federal Well No. 1 and (ii) proposed Avalon Federal Well No. 2 should result in the recovery of hydrocarbons that otherwise will be wasted.

(36) Approval of an unorthodox gas well location within the Catclaw Draw-Morrow Gas Pool for the proposed Avalon Federal Well No. 2 and the simultaneous dedication of the proposed 600.01-acre unit comprising the lower two-thirds of Section 1 to these two wells will afford all mineral interest owners the opportunity to produce the recoverable reserves under this unit thereby protecting correlative rights.

(37) At the December 3, 1998 hearing, Matador, with the mutual consent of all working interests, requested that Fasken be designated operator of the: (i) proposed 600.01-acre unit within the Catclaw Draw-Morrow Gas Pool; (ii) existing Catclaw Draw "1" Federal Well No. 1; and (iii) proposed Avalon Federal Well No. 2.

(38) Matador's application in Case No. 12034 is in the best interest of conservation and should therefore be approved.

(39) In accordance with the provisions of Division Rule 104.F(2), the unorthodox gas well location for the proposed Avalon Federal Well No. 2 for any formations and/or pools from the top of the Wolfcamp formation to the top of the Catclaw Draw-Morrow Gas Pool developed on 320-acre spacing, which currently include the Undesignated Springs-Upper Pennsylvanian Gas Pool, Undesignated Avalon-Strawn Gas Pool, Undesignated East Catclaw Draw-Strawn Gas Pool, and Undesignated Avalon-Atoka Gas Pool, is hereby approved. A standard 297.88-acre lay-down gas spacing and proration unit comprising Lots 29 through 32 and the SW/4 (lower one-third equivalent) of Section 1 for this production is to be dedicated to this well.

(40) Without evidence and testimony to support Texaco's requests in Cases No. 12051 and 12105, both applications should be denied.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Matador Petroleum Corporation ("Matador") in Case No. 12034, Division Order No. R-10872-B is hereby amended as follows:

- (a) a standard 600.01-acre gas spacing and proration unit is hereby established for the Catclaw Draw-Morrow Gas Pool comprising Lots 11 through 14, 25 through 32, and the SW/4 (lower two-thirds equivalent) of irregular Section 1, Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico; and
- (b) gas production from this pool is to be simultaneously dedicated to the:
 - (i) existing Catclaw Draw "1" Federal Well No. 1 (**API No. 30-015-30123**), located at an unorthodox gas well location 660 feet from the South line and 2310 feet from the East line (Unit V) of Section 1; and
 - (ii) proposed Avalon Federal Well No. 2 (**API No. 30-015-29730**) to be drilled at an unorthodox infill gas well location, hereby approved, 2080 feet from the South line and 750 feet from the West line (Unit T) of Section 1.

(2) Also, the Avalon Federal Well No. 2 location is hereby approved for the production of gas from any formations and/or pools from the top of the Wolfcamp formation to the top of the Catclaw Draw-Morrow Gas Pool developed on 320-acre spacing, which currently include the Undesignated Springs-Upper Pennsylvanian Gas Pool, Undesignated Avalon-Strawn Gas Pool, Undesignated East Catclaw Draw-Strawn Gas Pool, and Undesignated Avalon-Atoka Gas Pool. Gas production from this vertical interval is to be dedicated to a standard 297.88-acre lay-down gas spacing and proration unit comprising Lots 29 through 32 and the SW/4 (lower one-third equivalent) of Section 1.

(3) Fasken Oil and Ranch, Ltd. ("Fasken") is hereby designated the operator of the subject wells and units.

(4) All provisions of Division Order No. R-10872-B, including the production penalty assessed Morrow gas production from the Catclaw Draw "1" Federal Well No. 1, not in conflict with this order shall remain in full force and effect until further notice.

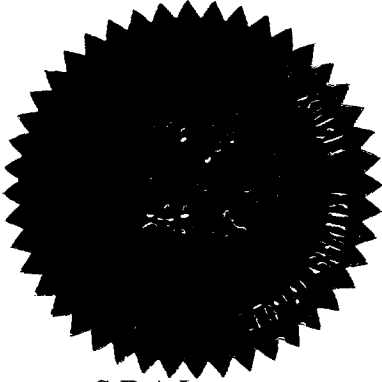
(5) The application of Texaco Exploration and Production Inc. ("Texaco") in Case No. 12051, to drill its proposed Rocky Arroyo Federal Com. Well No. 1 at an unorthodox gas well location 3200 feet from the South line and 660 feet from the West line (Lot 13/Unit M) of Section 1 and for an order pooling all mineral interests underlying: (i) Lots 11 through 14 and 17 through 28 (upper two-thirds equivalent) in order to form a 555.74-acre gas spacing and proration unit for the Catclaw Draw-Morrow Gas Pool; and (ii) Lots 11 through 14 and 19 through 22 to form a 288.19-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within the upper Pennsylvanian zones, which presently include the Undesignated McMillan-Cisco Gas Pool and Undesignated Springs-Upper Pennsylvanian Gas Pool, is hereby denied.

(6) The application of Texaco in Case No. 12105 to drill the above-described Rocky Arroyo Federal Com. Well No. 1 and for an order pooling all mineral interests underlying: (i) all of Section 1 to form a non-standard 853.62-acre gas spacing and proration unit for the Catclaw Draw-Morrow Gas Pool; and (b) Lots 11 through 14 and 19 through 22 to form a 288.19-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing from the top of the Wolfcamp formation to the top of the Morrow formation, which presently include the Undesignated McMillan-Cisco Gas Pool and Undesignated Springs-Upper Pennsylvanian Gas Pool, is hereby denied.

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

Case No. 12034/12051/12105
Order No. R-10872-C
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenberg
LORI WROTENBERY
Director