

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:

NOMENCLATURE
CASE NO. 12000
ORDER NO. R-11145

**APPLICATION OF MARBOB ENERGY CORPORATION FOR POOL
CREATION, THE PROMULGATION OF SPECIAL POOL RULES, AND A NON-
STANDARD OIL PRORATION UNIT, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 9, 1998, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 11th day of March, 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 this case and its subject matter.

(2) The applicant in this matter, Marbob Energy Corporation ("Marbob"), is the owner and operator of the Lewis Fee Well No. 1 (**API No. 30-025-34236**), which was drilled in early 1998 to a total depth of 12,505 feet at an unorthodox oil well location (approved by Division Administrative Order NSL-3891, dated November 3, 1997) 1130 feet from the South line and 2544 feet from the West line (Unit N) of Section 31, Township 9 South, Range 37 East, NMPM, Lea County, New Mexico.

(3) The applicant seeks the creation of a new pool for the production of oil from the Devonian formation underlying the E/2 SW/4 and the W/2 SE/4 of Section 31 with special pool rules including provisions for 160-acre oil spacing and proration units and designated well location requirements.

(4) By Order No. R-11116 issued in Case No. 12096, dated January 7, 1999 and made effective January 1, 1999, the Division created and defined the Southeast Crossroads-Devonian Pool for the production of oil from the Devonian formation. The horizontal

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limits for this pool, as currently designated, include the following lands in Lea County, New Mexico:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM

Section 31: SW/4.

(5) Currently the Southeast Crossroads-Devonian Pool is governed by the Division's statewide rules with development on standard 40-acre spacing and proration units, each having a top unit depth bracket allowable of 410 barrels of oil per day and a limiting gas/oil ratio of 2,000 cubic feet of gas per barrel of oil which results in a casinghead gas allowable of 820 MCF per day. This depth bracket allowable was established and set by Order No. R-11116 based on the top most perforation in the discovery well for the pool being 12,460 feet in Marbob's above-described Lewis Fee Well No. 1.

(6) Marbob presented testimony which indicates that all of Section 31 is included in a single fee lease obtained from Santa Fe Pacific Gold Corporation in which Marbob is the leasehold operator.

(7) Geologic evidence presented by Marbob indicates that the Devonian reservoir/structure from which its Lewis Fee Well No. 1 is producing is very limited in extent and comprises an area of approximately 110 acres that is confined to the center of the S/2 of Section 31.

(8) The engineering evidence indicates that the Lewis Fee Well No. 1 is: (i) capable of draining an area in excess of 40 acres; and (ii) capable of draining this entire structure in an economical manner. Marbob's technical evidence further indicates that developing this small feature either on 40-acre units or with more than one well would be uneconomical and unnecessary.

(9) In order to 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 otherwise prevent waste and protect correlative rights, special rules providing for 160-acre spacing units should be adopted for the existing Southeast Crossroads-Devonian Pool

(10) With the creation of the Southeast Crossroads-Devonian Pool on January 1, 1999 for the Lewis Fee Well No. 1, Marbob's request for the creation of a new Devonian oil pool became unnecessary and should therefore be dismissed. However, the W/2 SE/4 of Section 31, which is to be included in Marbob's requested 160-acre non-standard oil spacing and proration unit, should be included in the boundary of the Southeast Crossroads-Devonian Pool.

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(11) The applicant requested 330-foot well setback requirements in order to provide maximum flexibility in locating wells to penetrate the Devonian structure underlying the S/2 of Section 31.

(12) The proposed setback requirements are not in conformance with standard setback requirements for 160-acre oil pools and will not serve to protect correlative rights. In addition, Division Rule 104 provides the mechanism and the opportunity for operators to apply for unorthodox oil well locations on a case-by-case basis.

(13) The special pool rules should provide for designated well locations such that a well cannot be located closer than 660 feet from the outer boundary of the proration unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary in order to assure orderly development of the pool and protect correlative rights.

(14) The proposed 160-acre non-standard unit encompasses almost the entire Devonian structure from which the Lewis Fee Well No. 1 is producing. Further, the Lewis Fee Well No. 1 is situated in the center of this structure and proposed unit. Since all of Section 31 is within a single lease with common ownership throughout and the technical evidence indicates that this one well will be sufficient to adequately develop this reservoir, Marbob's request to establish the proposed 160-acre non-standard unit should be approved.

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

(16) Approval of this application is in the best interest of conservation, exhibits sound engineering practices, will serve to prevent waste, will afford the applicant the continued opportunity to produce its just and equitable share of the oil in the subject reservoir and will otherwise serve to prevent waste and protect correlative rights.

(17) This order should be made effective January 1, 1999, the creation date of the Southeast Crossroads-Devonian Pool.

IT IS THEREFORE ORDERED THAT:

(1) The application of Marbob Energy Corporation ("Marbob") for the creation of a new pool for the production of oil from the Devonian formation underlying the E/2 SW/4 and the W/2 SE/4 of Section 31, Township 9 South, Range 37 East, NMPM, Lea County, New Mexico is hereby dismissed.

(2) However the Southeast Crossroads-Devonian Pool in Lea County, New Mexico, is extended to include:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM
Section 31: E/2 SE/4.

(3) Special pool rules for the Southeast Crossroads-Devonian Pool are set as follows:

SPECIAL RULES FOR THE
SOUTHEAST CROSSROADS-DEVONIAN POOL

RULE 1. Each well completed in or recompleted in the Southeast Crossroads-Devonian Pool or in the Devonian formation within one mile thereof, and not nearer to or within the limits of another designated Devonian oil pool shall be spaced, drilled, operated, and produced in accordance with these Special Rules.

RULE 2. Each well shall be located on a standard unit containing 160 acres, more or less, substantially in the form of a square, which is a governmental quarter section being a legal subdivision of the United States Public Lands Survey.

RULE 3. The Division Director may grant an exception to the requirements of Rule 2 above without notice and hearing when an application has been duly filed under the provisions of **Division Rule 104.D(2)**.

RULE 4. Each well shall be located no closer than 660 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been duly filed under the provisions of **Division Rule 104.F**.

RULE 6. The allowable for a standard proration unit (158 through 162 acres) shall be based on a depth bracket allowable of 650 barrels of oil per day, and in the event there

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is more than one well on a 160-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

IT IS FURTHER ORDERED THAT:

(4) A 160-acre non-standard oil spacing and proration unit in the Southeast Crossroads-Devonian Pool comprising the E/2 SW/4 and the W/2 SE/4 of Section 31, Township 9 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby established to be dedicated to Marbob's Lewis Fee Well No. 1 (**API No. 30-025-34236**), located at an unorthodox oil well location (approved by Division Administrative Order NSL-3891, dated November 3, 1997) 1130 feet from the South line and 2544 feet from the West line (Unit N) of Section 31.

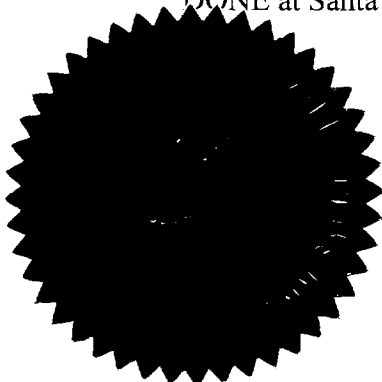
(5) The location of any well presently drilling to or completed in the Southeast Crossroads-Devonian Pool or in the Devonian formation within one mile thereof is hereby approved. The operator of any well having an unorthodox location shall notify the Division's Hobbs District Office in writing of the name and location of the well within 20 days from the date of this order.

(6) Pursuant to Paragraph A of Section 70-2-18, NMSA 1978, existing oil wells in the Southeast Crossroads-Devonian Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable.

(7) Jurisdiction is hereby 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.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director