

Entered September 10, 1980
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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 6861
Order No. R-6466

APPLICATION OF ZIA ENERGY, INC.
FOR POOL CREATION, SPECIAL POOL
RULES, AND AN NGPA DETERMINATION,
LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on May 7, 1980, at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 10th day of September, 1980, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Zia Energy, Inc., seeks the creation of a new San Andres oil pool for its State "C" Well No. 1, which is located 1980 feet from the North line and 1982 feet from the West line of Section 17, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico, and the promulgation of special rules for said pool, including a provision for a gas-oil ratio limitation of 10,000 cubic feet of gas per barrel of oil.
- (3) That the applicant further seeks a determination that said State "C" Well No. 1 has discovered a new onshore reservoir and should be exempt from the behind-the-pipe exclusion, and that new wells completed in said new reservoir are entitled to the NGPA Section 102 "New Onshore Reservoir," Wellhead Price Ceiling Category, although said reservoir had been penetrated by other wells which penetrated the San Andres formation prior to April 20, 1977, alleging that oil and gas could not have been produced

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in commercial quantities by such old wells prior to April 20, 1977.

(4) That the evidence establishes that to have plugged back and recompleted one of said wells in the San Andres formation in April, 1977, would have cost \$112,230, and that actual operating costs plus overhead expense during an estimated 15-year life for such a well would total \$273,285.

(5) That the evidence establishes that the estimated oil reserves available to the subject well total 13,406 barrels, and that its gas reserves total some 328,500 Mcf, and that the oil reserves at an April, 1977, stripper oil price of \$13.00 per barrel less 12.5 percent royalty and .075005 percent state taxes have a 1977 value of \$141,055, and that the gas reserves at an April, 1977, price of \$0.62 per Mcf less 12.5 percent royalty and .075005 percent state taxes have a 1977 value of \$164,845, for a total 1977 value for the well's oil and gas reserves of \$305,900.

(6) That using the subject well's reserves and applying the FERC economics test to determine whether an old well which penetrated the San Andres formation could have been economically plugged back and recompleted in the San Andres or whether it should be exempt from the "Behind-the-Pipe" exclusion (market value of the production less 1.6 times development cost plus operating costs) indicates that the economics of such a well would be:

$$\$305,900 - [1.6(\$112,230) + \$273,285] = -\$146,953$$

(7) That pursuant to the above formula, such recompletion as described above would be an uneconomic venture, and the Behind-the-Pipe exclusion does not apply.

(8) That the engineering and geological evidence presented establishes that applicant's State "C" Well No. 1 is indeed producing oil and gas from a new onshore San Andres reservoir separate and distinct from any other San Andres reservoir, and that the nearest commercial San Andres production is some 2 3/4 miles away.

(9) That a new pool for San Andres production should be created and designated as the Southwest Eunice-San Andres Pool, with vertical limits comprising the San Andres formation and

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horizontal limits as follows:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 17: NW/4

(10) That a special gas-oil ratio limitation for said pool should be established and a ratio of 5000 cubic feet of gas per barrel of oil is reasonable and should be adopted.

(11) That entry of an order embodying the above findings will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That a new San Andres oil pool, discovered by the Zia Energy, Inc., State "C" Well No. 1, located in Unit F of Section 17, Township 22 South, Range 37 East, NMPM, Lea County, New Mexico, with perforations from 3830 feet to 3834 feet is hereby created and defined, said pool to bear the designation of Southwest Eunice-San Andres Pool with vertical limits comprising the San Andres formation and horizontal limits as follows:

TOWNSHIP 22 SOUTH, RANGE 37 EAST, NMPM
Section 17: NW/4

(2) That a special gas-oil ratio limitation of 5000 cubic feet of gas per barrel of oil is hereby established for said Southwest Eunice-San Andres Pool.

(3) That jurisdiction of this cause is 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 herein-above designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


JOE D. RAMEY
Director

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