

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. 10190
Order No. R-9452

APPLICATION OF MCKAY OIL CORPORATION
FOR A HORIZONTAL DIRECTIONAL DRILLING
PROJECT AND SPECIAL OPERATING RULES
THEREFOR, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 10 and February 7, 1991, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 7th day of March, 1991, 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) Division Case Nos. 10190, 10205, 10206, 10207 and 10208 were consolidated at the time of the January 10th hearing for the purpose of testimony.

(3) The applicant, McKay Oil Corporation, seeks authority to initiate a horizontal directional drilling project in the SW/4 of Section 6, Township 5 South, Range 22 East, NMPM, Chaves County, New Mexico, being a standard 160-acre gas spacing and proration unit in the Wildcat Abo Gas Pool. The applicant proposes to drill its West Fork Federal Unit Well No. 10 at a standard surface location 1980 feet from the South and West lines (Unit K) of said Section 6 in the following manner:

Drill vertically to a depth of approximately 3400 feet through the Abo formation, log well, plug back and set production casing, kick off from vertical at a depth of approximately 2807 feet and commence a short radius curve in an undetermined direction building angle to approximately 90 degrees, commence drilling horizontally at a depth of approximately 2867 feet a distance of approximately 500 feet.

(4) The applicant further seeks special rules and provisions within the project area including the designation of a prescribed area limiting the horizontal displacement of the wellbore such that the well can be no closer than 330 feet to the outer boundary of its assigned spacing and proration unit.

(5) The evidence and testimony presented indicates that the proposed horizontal wellbore, which is experimental in nature, should encounter a greater amount of natural fractures within the Abo formation than would a conventional wellbore, which should ultimately result in the recovery of a greater amount of gas from the proposed proration unit, thereby preventing waste.

(6) The normal setback requirement for a Wildcat Abo Gas Pool well, pursuant to Rule 104 (C)(II) of the Division Rules and Regulations, is 660 feet from the outer boundary of the proration unit.

(7) The 330 foot setback proposed by the applicant should not violate correlative rights inasmuch as the subject well is located within the applicant's West Fork Unit Area which contains therein all affected offset acreage surrounding the SW/4 of said Section 6.

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

(9) According to further evidence the proposed surface location is such that there is a possibility, depending on the kick off direction, that the horizontal portion of the wellbore may encroach upon the 330 foot setback as proposed by the applicant.

(10) Should the horizontal portion of the wellbore encroach upon the 330 foot setback requirement and commercial gas production is established within the well, the applicant should be required to reopen this case and appear and present evidence and testimony in order to demonstrate that correlative rights will still be protected.

(11) Approval of the proposed horizontal directional drilling project should result in the recovery of an additional amount of gas from the proposed proration unit which may not otherwise be recovered, thereby preventing waste, and will not violate correlative rights provided that the proposed horizontal drainhole is in compliance with the setback requirements described in Finding No. (4) above.

(12) The applicant should be required to conduct a directional survey on the vertical portion of the wellbore prior to commencing directional drilling operations, and on the horizontal portion of the wellbore during or subsequent to completion of directional drilling operations in order that the direction, extent and terminus of said horizontal drainhole may be determined to be in compliance with the terms of this order.

(13) The applicant should further be required to submit copies of said directional surveys to the Santa Fe and Artesia offices of the Division.

(14) The applicant should notify the supervisor of the Artesia district office of the Division of the date and time of commencement of directional drilling operations and of the conductance of any directional surveys on the proposed well in order that these operations may be witnessed.

IT IS THEREFORE ORDERED THAT:

(1) The application of McKay Oil Corporation for a horizontal directional drilling project in the SW/4 of Section 6, Township 5 South, Range 22 East, NMPM, Wildcat Abo Gas Pool, Chaves County, New Mexico, is hereby approved.

(2) The applicant is further authorized to drill its West Fork Federal Unit Well No. 10 located at a standard surface location 1980 feet from the South and West lines (Unit K) of said Section 6 in the following manner:

Drill vertically to a depth of approximately 3400 feet through the Abo formation, log well, plug back and set production casing, kick off from vertical at a depth of approximately 2807 feet and commence a short radius curve in an undetermined direction building angle to approximately 90 degrees, commence drilling horizontally at a depth of approximately 2867 feet a distance of approximately 500 feet.

(3) The SW/4 of said Section 6 shall be dedicated to the above-described well forming a standard 160-acre gas spacing and proration unit for the Wildcat Abo Gas Pool.

(4) No part of the horizontal wellbore shall be located closer than 330 feet from the outer boundary of the proration unit.

(5) Should the horizontal portion of the wellbore encroach upon the 330 foot setback requirement and commercial gas production is established within the well, the applicant shall be required to reopen this case and appear and present evidence and testimony in order to demonstrate that correlative rights will still be protected.

(6) The applicant shall be required to conduct a directional survey on the vertical portion of the wellbore prior to commencing directional drilling operations, and on the horizontal portion of the wellbore during or subsequent to completion of directional drilling operations in order that the direction, extent and terminus of said horizontal drainhole may be determined to be in compliance with the terms of this order.

(7) The applicant shall further be required to submit copies of said directional surveys to the Santa Fe and Artesia offices of the Division.

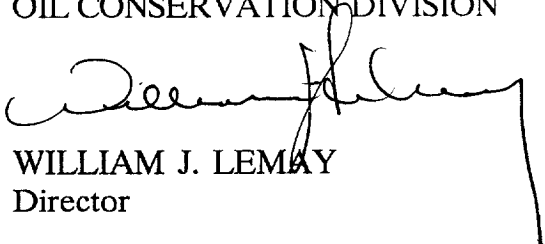
(8) The applicant shall notify the supervisor of the Artesia district office of the Division of the date and time of commencement of directional drilling operations and of the conductance of any directional surveys on the proposed well in order that these operations may be witnessed.

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

CASE NO. 10190
Order No. R-9452
Page -5-

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

S E A L