

**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. 10568
Order No. R-9760**

**APPLICATION OF MEWBOURNE OIL
COMPANY FOR AN UNORTHODOX INFILL
GAS WELL LOCATION AND SIMULTANEOUS
DEDICATION, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 15, 1992, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 4th day of November, 1992, 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, Mewbourne Oil Company, seeks approval to drill its proposed Chalk Bluff Federal Well No. 3 at an unorthodox gas well location 1980 feet from the South line and 990 feet from the East line (Unit I) of Section 1, Township 18 South, Range 27 East, NMPM, North Illinois Camp-Morrow Gas Pool, Eddy County, New Mexico.

(3) The applicant further seeks an exception to Division General Rule No. 104(C)(2) to allow the existing 320-acre gas spacing and proration unit comprising the S/2 of Section 1 to be simultaneously dedicated in the North Illinois Camp-Morrow Gas Pool to the proposed well and to the existing Chalk Bluff Federal Well No. 1 located at a standard gas well location 790 feet from the South line and 2250 feet from the West line (Unit N) of Section 1.

(4) The proposed well is located within the North Illinois Camp-Morrow Gas Pool and is therefore subject to the well location requirements of Division General Rule No. 104(C)(2), which requires that wells be located no closer than 1980 feet from the end boundary nor closer than 660 feet from the side boundary of the proration unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary.

(5) The Chalk Bluff Federal Well No. 1 was drilled in 1990 and was completed in the Morrow formation with an initial potential of approximately 886 MCF gas per day. Division records indicate that this well's average production during January-August 1992, was approximately 163 MCFG per day.

(6) In February, 1992, the applicant drilled its Chalk Bluff "6" State Well No. 1, located 990 feet from the South line and 730 feet from the West line (Unit M) of Section 6, Township 18 South, Range 28 East, NMPM, and completed said well in the North Illinois Camp-Morrow Gas Pool at an initial producing rate of approximately 1,902 MCFG per day. Division records indicate that this well's average production during May-August 1992 was approximately 2,153 MCFG per day.

(7) Within the subject area, the applicant has identified three distinct producing intervals within the Morrow formation. For purpose of discussion, these intervals will hereinafter be referred to as the upper, middle and lower intervals.

(8) The Chalk Bluff Federal Well No. 1 is completed in all three intervals in the Morrow. The Chalk Bluff "6" State Well No. 1 is completed in the lower interval only.

(9) According to applicant's geologic evidence and testimony, a well at the proposed unorthodox location should encounter thicker sand sections and greater permeability in the Morrow formation than a well drilled at a standard well location thereon, thereby increasing the likelihood of obtaining commercial gas production.

(10) The applicant presented engineering evidence and testimony which indicates that the Chalk Bluff Federal Well No. 1 is draining an area of approximately 37 acres and should ultimately recover some 229 MMCF of gas from the S/2 of Section 1. Remaining gas reserves as of the date of the hearing for the Chalk Bluff Federal Well No. 1 are estimated to be approximately 69 MMCF of gas.

(11) Applicant contends that the Chalk Bluff "6" State Well No. 1 is draining an area of approximately 140 acres, a substantial amount of which area is located within the S/2 of Section 1. Applicant further contends that the Chalk Bluff Federal Well No. 1 is unable to equitably compete with the Chalk Bluff "6" State Well No. 1 for the gas reserves underlying the S/2 of Section 1, and as a result, those interest owners in the S/2 of Section 1 are being adversely affected by offset drainage.

(12) Applicant intends to initially complete and produce only the lower interval in the proposed well.

(13) Although the applicant is the majority interest owner and operator of both the Chalk Bluff Federal Well No. 1 and the Chalk Bluff "6" State Well No. 1, the applicant's interest varies within each unit as does the royalty interest and the overriding royalty interest.

(14) As per Division Memorandum dated August 3, 1990 regarding Rule 104(C)(2) of the General Rules and Regulations (infill gas wells in non-prorated gas pools), applications to produce both wells continuously and concurrently will be approved upon the presentation of compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

(15) The applicant's engineering evidence further indicates that the applicant anticipates that the drainage area for the proposed well should not encompass that area within the S/2 of Section 1 that is currently being drained by the aforesaid Chalk Bluff Federal Well No. 1.

(16) Applicant testified that if the Division does not authorize both wells in the S/2 of Section 1 to be produced continuously and concurrently, the Chalk Bluff Federal Well No. 1 may ultimately have to be prematurely plugged and abandoned due to the economic hardship caused by shut-in requirements.

(17) The applicant is the offset operator to the north, south and east of the subject proration unit.

(18) Arco Oil & Gas Company, the only other offset operator potentially affected by the application, did not appear at the hearing in opposition.

(19) The applicant has satisfactorily justified the drilling of a second well on the subject proration unit and has further demonstrated that its correlative rights will be violated if not allowed to produce both wells continuously and concurrently.

(20) Approval of the subject application will afford the applicant the opportunity to recover its just and equitable share of the gas reserves underlying the subject proration unit and will further protect the correlative rights of those interest owners within the S/2 of Section 1.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Mewbourne Oil Company, is hereby authorized to drill its Chalk Bluff Federal Well No. 3 at an unorthodox gas well location 1980 feet from the South line and 990 feet from the East line (Unit I) of Section 1, Township 18 South, Range 27 East, NMPM, North Illinois Camp-Morrow Gas Pool, Eddy County, New Mexico.

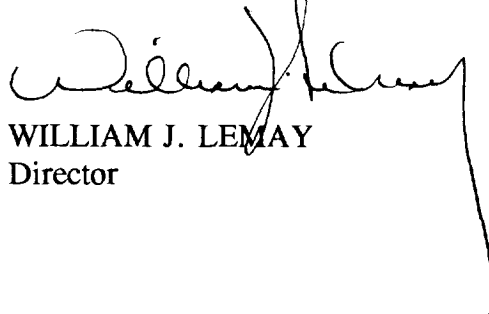
(2) The applicant is further authorized to simultaneously dedicate the S/2 of Section 1 in the North Illinois Camp-Morrow Gas Pool to the above-described well and to the existing Chalk Bluff Federal Well No. 1 located at a standard gas well location 790 feet from the South line and 2250 feet from the West line (Unit N) of Section 1.

(3) The applicant is further authorized to continuously and concurrently produce the above-described well and the aforesaid Chalk Bluff Federal Well No. 1.

(4) 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.

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.

WILLIAM J. LEMAY
Director

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