

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. 10683
ORDER NO. R-9870*

**APPLICATION OF MERIDIAN OIL, INC. FOR A NON-STANDARD GAS SPACING
AND PRORATION UNIT, LEA COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on March 18, 1993 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 14th day of April, 1993 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, Meridian Oil Inc. ("Meridian"), seeks approval of a 160-acre non-standard gas spacing and proration unit in the designated and Undesignated Rhodes-Yates-Seven Rivers Gas Pool comprising the SE/4 SE/4 of Section 10 and the NE/4 NE/4 and the S/2 NE/4 of Section 15, both in Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, said unit to be dedicated to its Gregory "B" Well No. 2 to be drilled at a standard gas well location in Unit A (NE/4 NE/4) of said Section 15.

(3) This application and hearing is the result of a denial by the Division (see letter on file with the Division dated February 15, 1993) of an administrative application for a 120-acre non-standard gas spacing and proration unit filed by Meridian in December, 1992, requesting the NE/4 NE/4 and S/2 NE/4 of said Section 15 be dedicated to the proposed well.

(4) The Rhodes-Yates-Seven Rivers Gas Pool is an unprorated gas pool governed under the Division's general Rules and Regulations which require 160-acre spacing and proration units, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Lands Survey. Said pool is also governed by the two Division Memorandums dated July 27, 1988 and August 3, 1990, which disallow the simultaneous dedication in gas spacing units of more than one well in unprorated gas pools.

(5) As expressed in the aforementioned correspondence to Meridian dated February 15, 1993, it was the Division's opinion that all references to "proration units" in its Memorandums were to be interpreted as "standard gas proration units of standard size for a particular pool". Meridian was informed by said letter that the practice of operators forming non-standard spacing units in order to avoid the Division's simultaneous dedication policy was no longer an accepted practice. Also, Meridian was notified that in most instances the practice of forming non-standard sized and shaped spacing units to avoid the compulsory pooling of acreage within standard sized and shaped spacing and proration units was also not considered just cause by the Division.

(6) Within this particular two Section area, development of the Rhodes-Yates-Seven Rivers Gas Pool is as follows:

- (a) The 40-acre non-standard gas spacing unit comprising the SW/4 SW/4 (Unit M) of Section 10, approved by Division Administrative Order NSP-1292, is dedicated to Meridian's Rhodes GSU Well No. 9 in Unit M;
- (b) the standard 160-acre unit comprising the NW/4 of Section 10 is dedicated to Meridian's Rhodes GSU Well No. 16 in Unit E;
- (c) the N/2 S/2 of Section 10, being a non-standard 160-acre unit approved by Division Administrative Orders NSP-1292 and NSP-1292-A has been developed by Meridian's Bates Well No. 1 (well P & A'ed February, 1988) in Unit L and Doyle Hartman - Oil Operator attempted to develop the same acreage with its C. T. Bates Well No. 2 (well was P & A'ed in January, 1991 after encountering a severe waterflow during drilling) also in Unit L;
- (d) the standard 160-acre unit comprising the SW/4 of Section 15 is simultaneously dedicated to Meridian's Cagle "B" Well No. 1 in Unit L and Rhodes GSU Well No. 24 in Unit N (simultaneous dedication occurred prior to the Division's July 27, 1988 Memorandum);

- (e) the standard 160-acre unit comprising the SE/4 of Section 15 is simultaneously dedicated (pre-1988 authorization) to Meridian's Rhodes GSU Well Nos. 8 and 25 in Units J and O, respectively; and,
- (f) the 120-acre non-standard gas spacing unit comprising the NW/4 NW/4 and S/2 NW/4 of Section 15, approved by Division Administrative Order NSP-1292, is simultaneously dedicated (pre-1988 authorization) to Meridian's Gregory "B" Well No. 1 in Unit F and Rhodes GSU Well No. 7 in Unit F.

(7) The undeveloped portions comprise the NE/4 and NE/4 NW/4 of said Section 15 and the NE/4, SE/4 SW/4, and S/2 SE/4 of said Section 10. The NE/4 of Section 10 is a standard 160-acre unit and can therefore be developed without exception to the spacing rules. The remaining 320 acres comprising the SE/4 SW/4 and S/2 SE/4 of Section 10 and the NE/4 and NE/4 NW/4 of Section 15, of which the subject 160-acre non-standard spacing unit is a part, would require special attention to accommodate any combination of two 160-acre units within the space available.

(8) In this instance the proposed 160-acre non-standard gas proration unit is within a single Federal lease owned and operated by Meridian. The remaining 160 acres comprising the SE/4 SW/4 and SW/4 SE/4 of Section 10 and the NW/4 NE/4 and NE/4 NW/4 of Section 15 is owned by Doyle Hartman - Oil Operator ("Hartman").

(9) The applicant approached Hartman to voluntarily pool his interest in the NW/4 NE/4 of Section 15 in order to form a standard 160-acre gas spacing and proration unit for the Rhodes-Yates-Seven Rivers Gas Pool comprising the entire NE/4. By correspondence dated January 7, 1993 Hartman notified Meridian that he was not interested in contributing his acreage in the NE/4 of said Section 15. In most normal circumstances the applicant would be required to force pool Hartman's interest in order to obtain the appropriate amount of acreage for the proposed gas well.

(10) Meridian's proposal, although a variance of Division policy and rules, appears to be an acceptable plan to correct a situation previously forced on both Hartman's and Meridian's acreage holdings by the existing non-standard drilling tracts.

(11) The entire non-standard gas proration unit may reasonably be presumed productive of gas from the Rhodes-Yates-Seven Rivers Gas Pool and the entire non-standard gas proration unit can be efficiently and economically drained and developed by the aforesaid well.

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

(13) Approval of the subject application will afford the applicant the opportunity to produce his just and equitable share of gas in the Rhodes-Yates-Seven Rivers Gas Pool, will 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 will otherwise prevent waste and protect correlative rights.

(14) In the future Hartman, or any applicable operator, may petition the Division for administrative approval for the remaining non-standard 160-acre gas spacing and proration unit in the Rhodes-Yates-Seven Rivers Gas Pool comprising the SE/4 SW/4 and SW/4 SE/4 of Section 10 and the NW/4 NE/4 and NE/4 NW/4 of Section 15. The operator should be required to follow the notice provisions as provided in Division General Rules 104.D(2)(a)(iii) and (iv).

IT IS THEREFORE ORDERED THAT:

(1) The application of Meridian Oil Inc. for a 160-acre non-standard gas spacing and proration unit in the designated and Undesignated Rhodes-Yates-Seven Rivers Gas Pool comprising the SE/4 SE/4 of Section 10 and the NE/4 NE/4 and the S/2 NE/4 of Section 15, both in Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby approved.

(2) Said unit is to be dedicated to its Gregory "B" Well No. 2 to be drilled at a standard gas well location in Unit A (NE/4 NE/4) of said Section 15.

IT IS FURTHER ORDERED THAT:

(3) Any applicable operator who possesses the right to develop the Rhodes-Yates-Seven Rivers Gas Pool comprising the SE/4 SW/4 and SW/4 SE/4 of said Section 10 and the NW/4 NE/4 and NE/4 NW/4 of said Section 15, may petition the Division for administrative approval for a non-standard 160-acre gas spacing and proration unit comprising said acreage.

(4) Said operator shall comply with the notice provisions as provided in Division General Rules 104.D(2)(a)(iii) and (iv).

(5) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.