



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

BETTY RIVERA

Cabinet Secretary

May 14, 2002

Lori Wrotenberg

Director

Oil Conservation Division

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Attention: Robert Bullock

Telefax No. (505) 748-4572

Administrative Order NSL-4731

Dear Mr. Bullock:

Reference is made to the following: (i) your application dated March 15, 2002 (*application reference No. pMESO-213453836*); (ii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe, including the file on Division Administrative Order DD-179 (H), dated July 3, 1997; and (iii) Mr. William F. Carr's telephone conversation with Mr. Michael E. Stogner, Engineer/Chief Hearing Officer with the Division on Tuesday, March 19, 2002: all concerning Yates Petroleum Corporation's ("Yates") request for a non-standard gas well location to be applicable to the Undesignated Diablo-Wolfcamp Gas Pool (76053) for the existing Pathfinder "AFT" State Well No. 9 (API No. 30-005-62795) located 660 feet from the South line and 2200 feet from the West line (Unit N) of Section 21, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico.

The S/2 of Section 21, being a standard 320-acre lay-down gas spacing and proration unit for this horizon to be dedicated to this well.

This application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox Wolfcamp gas well location is hereby approved.

Sincerely,

Lori Wrotenberg
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe
William F. Carr, Legal Counsel for Yates Petroleum Corporation - Santa Fe
File: DD-179 (H) /



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

July 3, 1997

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210
Attention: Eric Cummins

Administrative Order DD-179(H)
High Angle/Horizontal

Dear Mr. Cummins:

Reference is made to your application dated June 2, 1997 for authorization to initiate a high angle/horizontal directionally drilling project in the Diablo-Fusselman Pool within a portion of a single State lease (LG-5426) operated by Yates Petroleum Corporation ("Yates") comprising the S/2 of Section 21, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico.

The Division Director Finds That:

- (1) The application by Yates has been duly filed under the provisions of Rule 111.D and E of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10388, issued by the Oil Conservation Commission in Case 11,274 on June 13, 1995;
- (2) The Diablo-Fusselman Pool currently comprises all of Section 21 and the N/2 of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico and is subject to "*General Rules and Regulations for the Associated Oil and Gas Pools in Northwest and Southeast New Mexico/Special Rules and Regulations For The Diablo-Fusselman Associated Pool*", as promulgated by Division Order Nos. R-9131-A/R-5353-K, issued in Case 9854 and dated August 3, 1990, as amended by Division Order No. R-9131-B, dated February 5, 1991, and R-9131-C/R-5353-K-1, dated April 15, 1992, which includes provisions for:
 - (i) 80-acre oil spacing and proration units;
 - (ii) 160-acre gas spacing and proration units;

(iii) well location requirements whereby each well, oil or gas, shall be no closer than 330 feet to the outer boundary of the proration unit or 330 feet to any governmental quarter-quarter section line or subdivision inner boundary;

(iv) an oil allowable of 222 barrels of oil per day for an 80-acre oil spacing and proration unit and a limiting gas-oil ratio ("GOR") of 6,500 cubic feet of gas per barrel of oil which results in a casinghead allowable of 1,443 MCF per day; and,

(v) maximum daily production allowed for a standard 160-acre gas spacing and proration unit pursuant the Associated Pool rules is 2,886 MCF;

- (3) It is our understanding that Yates intends to apply horizontal drainhole technology to the Fusselman formation as a way to delay or alleviate water coning;
- (4) The "project area" proposed by Yates would consist of an area comprising 320 acres within a single State lease (LG-5426) comprising the S/2 of said Section 21;
- (5) Within this project area Yates seeks:
- a) the ability to traverse quarter section and quarter-quarter section lines within the project area in order to combine oil or gas spacing and proration units to accommodate such wellbores;
 - b) drill the proposed horizontal wellbores to within 330 feet of the outer boundary of the project area; and,
 - c) the assignment of an allowable for a horizontally drilled well based upon the number of standard 160 or 80-acre proration units, whichever is

applicable that are developed or traversed by a horizontal wellbore;

- (6) Within this 320-acre project area Yates currently has four wells that are drilled to and completed in the Diablo-Fusselman Associated Pool;
- a) Pathfinder "AFT" State Well No. 11 (API No. 30-005-62810), located 1650 feet from the South line and 1980 feet from the East line (Unit J);
 - b) Pathfinder "AFT" State Well No. 3 (API No. 30-005-62636), located 1650 feet from the South line and 2310 feet from the West line (Unit K);
 - c) Pathfinder "AFT" State Well No. 9 (API No. 30-005-62795), located 660 feet from the South line and 2200 feet from the West line (Unit N); and,
 - d) Pathfinder "AFT" State Well No. 10 (API No. 30-005-62801), located 660 feet from the South line and 2310 feet from the East line (Unit O);
- (7) Initially, it is Yates' intent to utilize the existing wellbore of its above-described Pathfinder "AFT" State Well No. 9 to drill a medium radius horizontal drainhole a lateral distance of approximately to 1,000 feet within the upper portion of the Fusselman formation;
- (8) It appears the applicant has satisfied all of the appropriate requirements prescribed in said Rule 111.D and E, the subject application should be approved and the well should be governed by the provisions contained within this order and all other applicable provisions of Division General Rule 111.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation ("Yates") for high angle/horizontal directional drilling within a "project area", in the Diablo-Fusselman Associated Pool within a portion of its Pathfinder "AFT" State lease comprising 320 acres underlying the following described acreage in Chaves County, New Mexico:

TOWNSHIP 10 SOUTH, RANGE 27 EAST, NMPM

Section 21: S/2.

(2) Yates is further authorized to proceed with their initial plans to recomplete the existing Pathfinder "AFT" State Well No. 9 (API No. 30-005-62795), located 660 feet from the South line and 2200 feet from the West line (Unit N) of said Section 21 by plugging-back, milling a window in the existing production casing, kick-off from the vertical in a north-northeasterly direction, drill a medium radius curve hole to approximately 90 degrees so as to encounter the upper portion of the Fusselman formation and continue drilling horizontally a distance of approximately 1,000 feet.

PROVIDED HOWEVER THAT any drainhole drilled within said project area may traverse quarter section and quarter-quarter section lines provided that the horizontal or producing portion of any drainhole shall be located no closer than 330 feet from the outer boundary of the above-described "project area".

PROVIDED FURTHER THAT the applicant shall determine the actual location of the kick-off points in each well prior to commencing directional drilling operations. Also, the applicant shall conduct a directional survey on the lateral portion of any horizontal wellbore during or after completion of drilling operations.

(3) The applicant shall notify the supervisor of the Artesia District office of the Division of the date and time said wellbore surveys are to be conducted so that they may be witnessed. The applicant shall further provide a copy of said wellbore surveys to the Santa Fe and Artesia offices of the Division upon completion.

(4) The allowable assigned to the proration units designated to the Diablo-Fusselman Associated Pool within the project area shall be assigned by the supervisor of the Division's Artesia district office and shall be equal to:

(a) 222 barrels of oil per day times the number of standard 80-acre oil spacing and proration units that are developed/traversed by a horizontal drainhole; or,

(b) 2,886 MCF per day times the number of standard 160-acre gas spacing and proration units that are developed/traversed by a horizontal drainhole; or,

(c) The supervisor of the Division's Artesia district office may assign a "project allowable" based on the number of tracts that are

either developed by conventionally drilled wells or traversed by a horizontal drainholes, in which case the operator may then produce the assigned project allowable from the wells within the project area in any proportion.

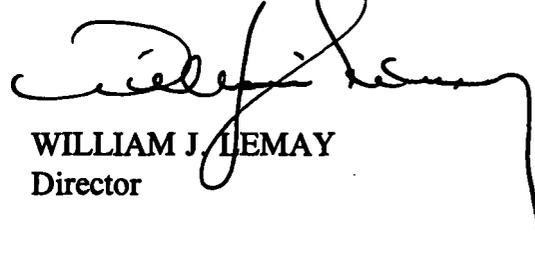
(5) The operator shall comply with all requirements and conditions set forth in Division General Rule 111.E(2) and any applicable requirements in 111.D and F, and Division Order Nos. R-9131-A/R-5353-K, R-9131-B, and R-9131-C/R-5353-K-1.

(6) Form C-105 shall be filed in accordance with Division Rule 1105 and the operator shall indicate thereon true vertical depth (TVD) in addition to measured depths (MVD).

(7) 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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

SEAL

cc: Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe

(DD-YATES)

Rec: 6-5-97

Susp: 6-25-97

Released: 7-3-97

June 25, 1997

Yates Petroleum Corporation
105 South Fourth Street
Artesia, New Mexico 88210

Attention: Eric Cummins

DRAFT ORDER

179

Administrative Order DD-***(H)
High Angle/Horizontal

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(5) Within this project area Yates seeks:

a) the ability to traverse quarter section and quarter-quarter section lines within the project area in order to combine oil or gas spacing and proration units to accommodate such wellbores;

b) drill the proposed horizontal wellbores to within 330 feet of the outer boundary of the project area; and,

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DRAFT

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- (8) It appears the applicant has satisfied all of the appropriate requirements prescribed in said Rule 111.D and E, the subject application should be approved and the well should be governed by the provisions contained within this order and all other applicable provisions of Division General Rule 111.

IT IS THEREFORE ORDERED THAT:

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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

cc: Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe

DRAFT

DD 6/25/97

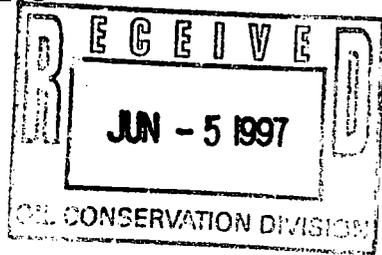
MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

June 2, 1997



Mr. Michael Stogner
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87508

RE: Application for Directional Wellbore
Pathfinder AFT St #9
Township 10 South, Range 27 East
Section 21: 660' FSL & 2220' FWL (surface location)
Chaves County, New Mexico

Dear Mr. Stogner:

Yates Petroleum Corporation (Yates) hereby makes application pursuant to OCD Rule 111.D for administrative approval to directionally drill the Pathfinder AFT St. #9 well in the Fusselman formation. This well which is presently inactive was drilled by Yates in 1990 to a TD of 6410' and cased with 7 5/8" casing. Initial production was 6 BOPD, 2800 MCF/GPD and 4 BWPD. Cumulative production from the Fusselman interval was 5,822 BO and 2.1 BCFG before water encroachment made gas production uneconomical. Pressure tests conducted January, 1997 indicated near original reservoir pressure. Yates believes a lateral extension can substantially increase ultimate oil and gas recovery by delaying the water coning. The estimated productive oil drainage area is 15 MBO and the estimated recoverable gas reserves in place are 2.5 BCF.

Exhibit #1, enclosed, is a plat showing the project area, the surface location, the proposed final bottom hole location, the producing area, existing wells in the project area and their associated operator. The well is within the existing boundaries of the Diablo-Fusselman Pool which has 80 acre oil proration units and 160 acre gas proration units. Therefore, the project area will consist of four (4) spacing units being the S/2SW/4, N/2SW/4, N/2SE/4, and the S/2SE/4 of Section 21, T10S-R27E. Please note the wellbore will not be closer than 330' from the nearest offset operators lease line.

Exhibit #2, enclosed, is a cross-sectional view of the proposed well which shows the true vertical depth of the top of the pay zone at 6290', a build angle of 28.65 degrees/100', the true vertical/measured depth of the kick-off point being at 6135', the angle at the end of build being 90 degrees, the point of penetration into the Fusselman being at a point 136' from the wellbore and a lateral length in the pay zone of 864' (1000' total horizontal displacement).

Exhibit #3, enclosed, is plan view of the proposed well which shows the spacing units and drilling unit, the producing area, the azimuth of true north, and the maximum lateral length which will not exceed 1000'.

Page 2
Pathfinder AFT St #9
June 2, 1997

Exhibit #4, enclosed, is a type log from the Yates Pathfinder AFT State #3, located in Unit K of Section 21, which allows us to see the pay zone on logs as well as the base of the Fusselman formation.

Exhibit #5, enclosed, is a statement showing the names and addresses of operators of offset spacing units to the proposed well. Each offset operator has been sent a copy of this application by certified mail - return receipt requested - along with notification that any objection to this application must be filed within twenty (20) days of the dated the notice was received.

Yates will conduct a directional survey of the wellbore after termination of the drilling operations that will determine the direction and extent of the lateral. Notification will be given to the NMOCD Artesia office in time to witness directional surveys and they will be provided with copies of any directional surveys of the wellbore.

Should the initial well be successful, Yates plans to drill a second lateral section from a different wellbore within the Project Area to evaluate further the horizontal development potential of the Fusselman Reservoir. We, therefore, request this application cover not only this initial well but any subsequent well(s) which may be directionally drilled to the Fusselman formation located within the Project Area in the S/2 of Section 21, T10S-R22E, Chaves County, New Mexico.

Yates hereby respectfully requests administrative approval of this proposal upon expiration of the twenty-day objection period (provided there are no objections) unless Yates can obtain waivers prior to the expiration of the twenty-day period from the offset operators, in which case we would request immediate approval.

Should you have any questions regarding this application, call either Eric Cummins, Geologist, or me, at (505) 748-1471.

Thank you.

Very truly yours,

YATES PETROLEUM CORPORATION



Robert Bullock
Landman

748-4312

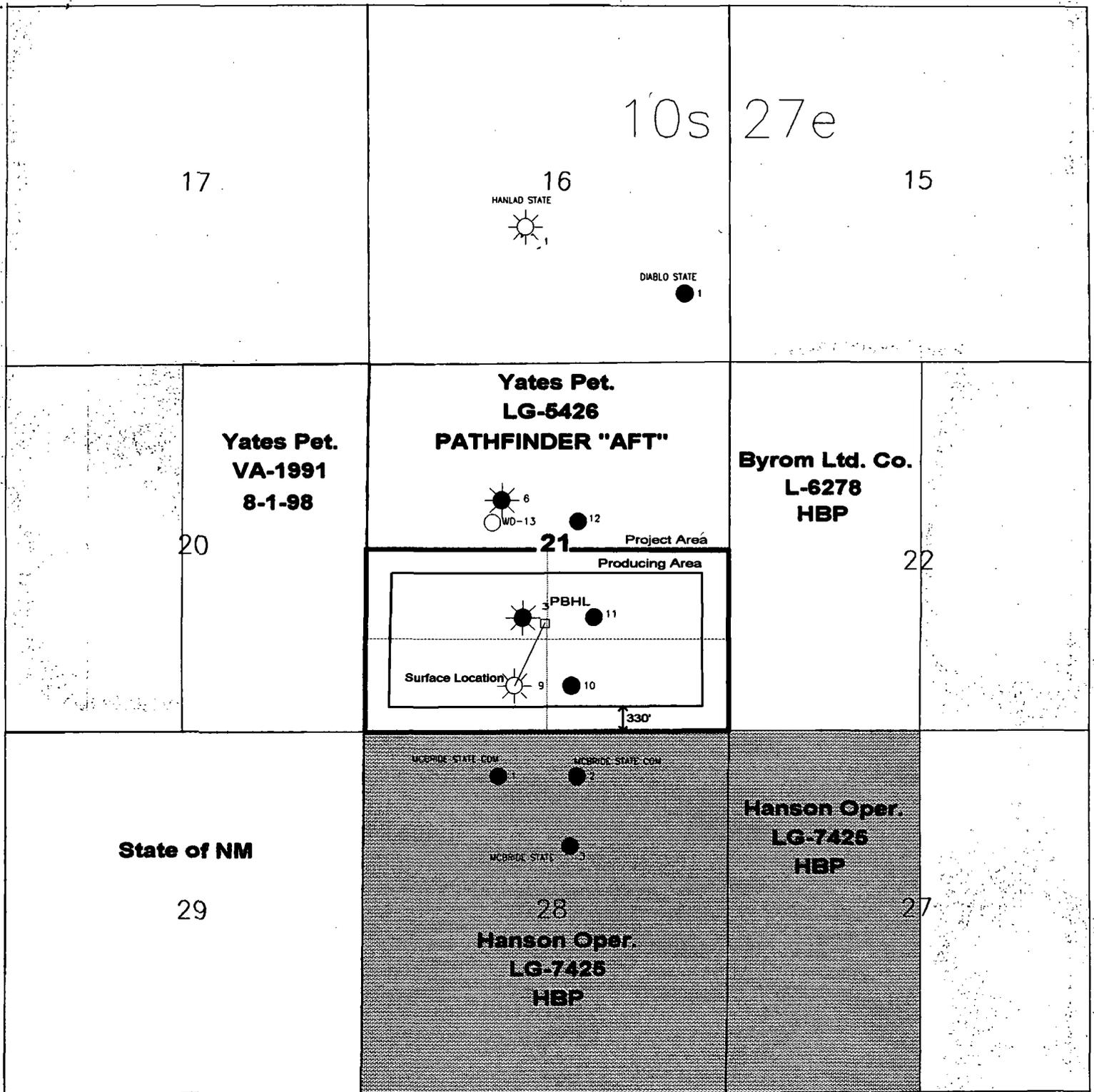
Fax ~~748-4585~~

748-4570

Fax

748-4584

RB:bn
enclosure(s)



YATES PETROLEUM CORPORATION

PATHFINDER "AFT" STATE #9

Application for Administrative Approval for Horizontal Wellbore

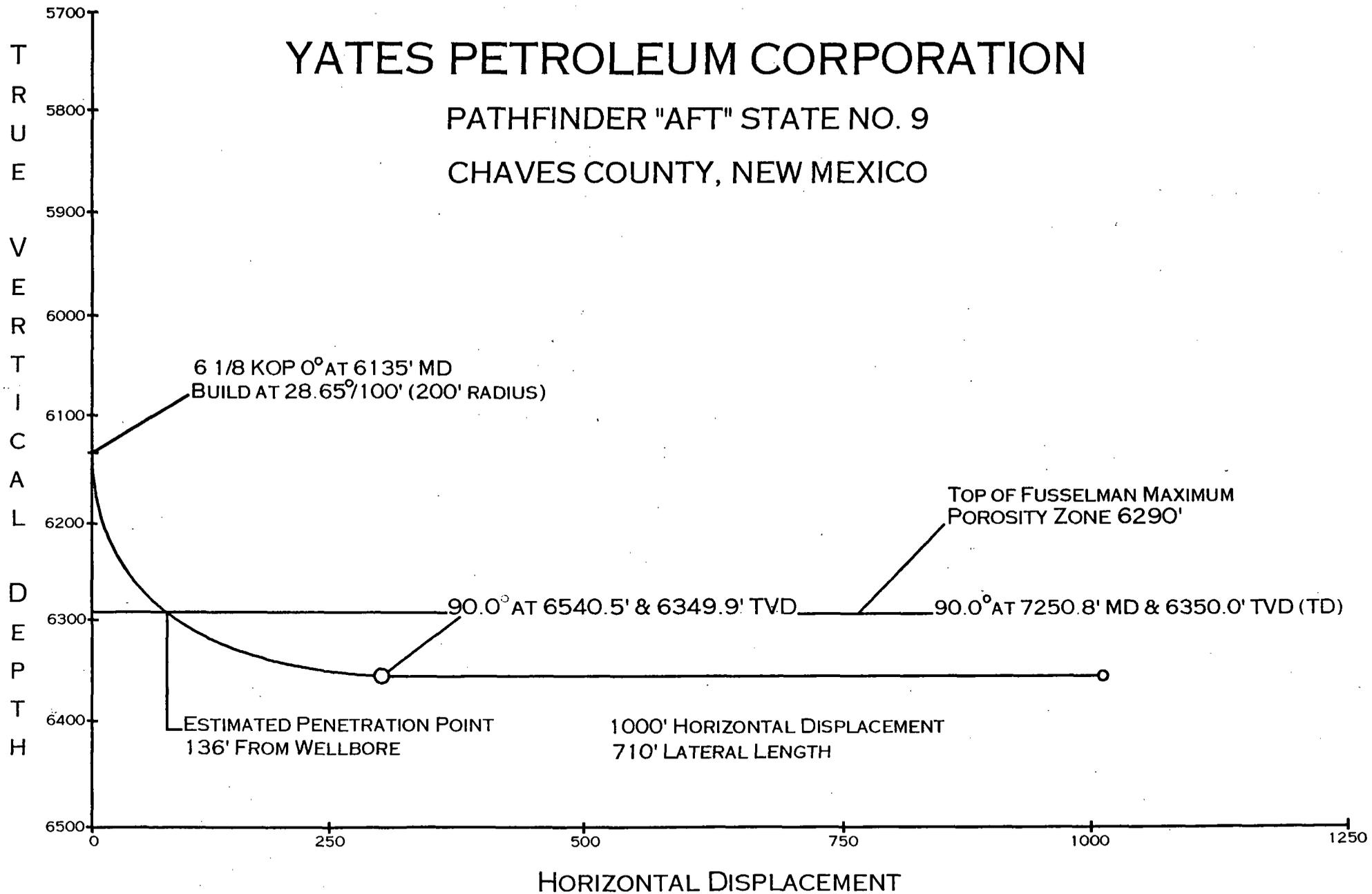
SCALE: 1" = 2000'

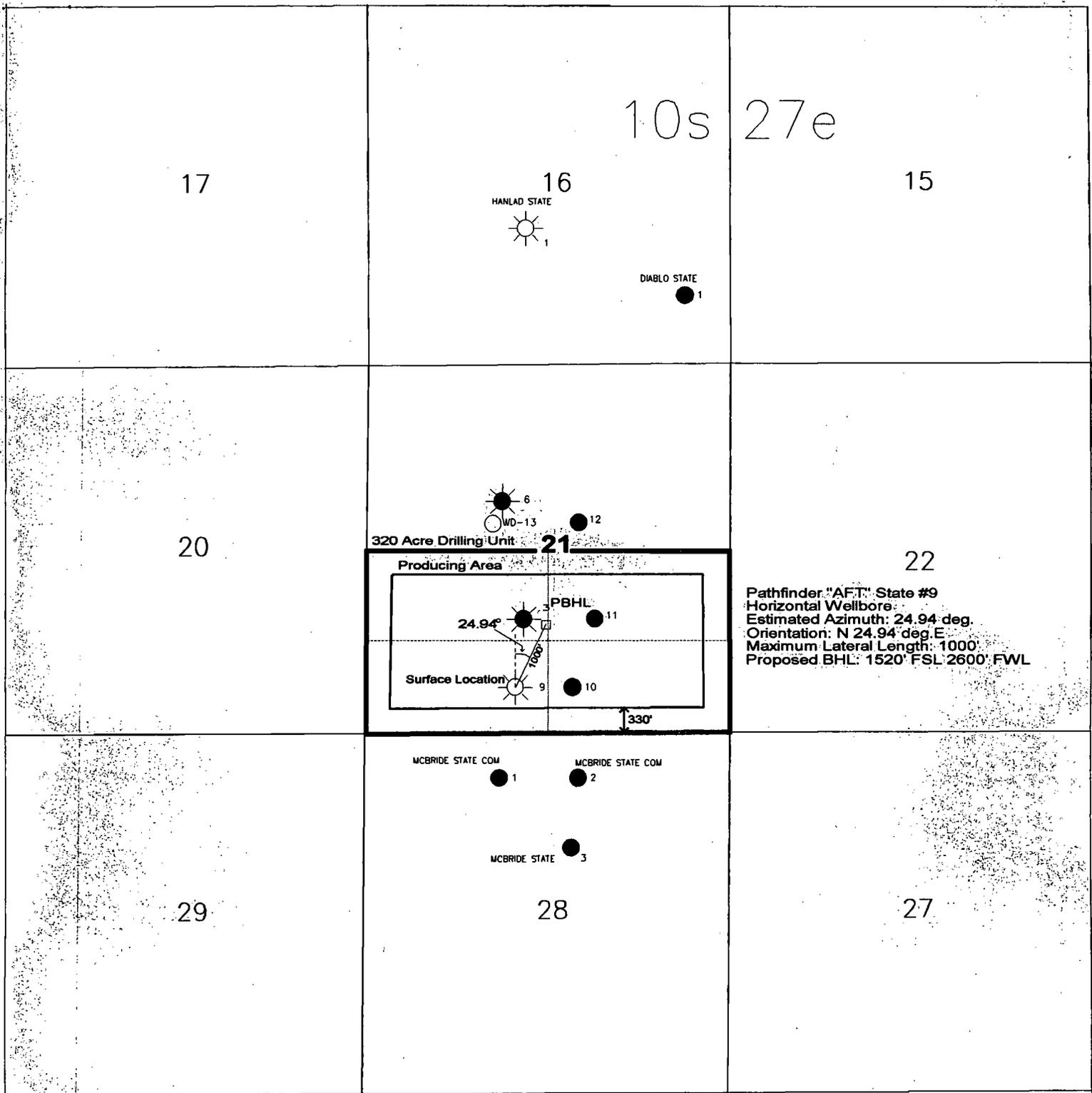
EXHIBIT #1

YATES PETROLEUM CORPORATION

PATHFINDER "AFT" STATE NO. 9

CHAVES COUNTY, NEW MEXICO





YATES PETROLEUM CORPORATION
PATHFINDER "AFT" STATE #9
Horizontal Plan View for Wellbore

SCALE: 1" = 2000'

Yates Petroleum Corporation - Pathfinder "AFT" State #3

Diablo Field Type Log

Scale: 1" = 40'

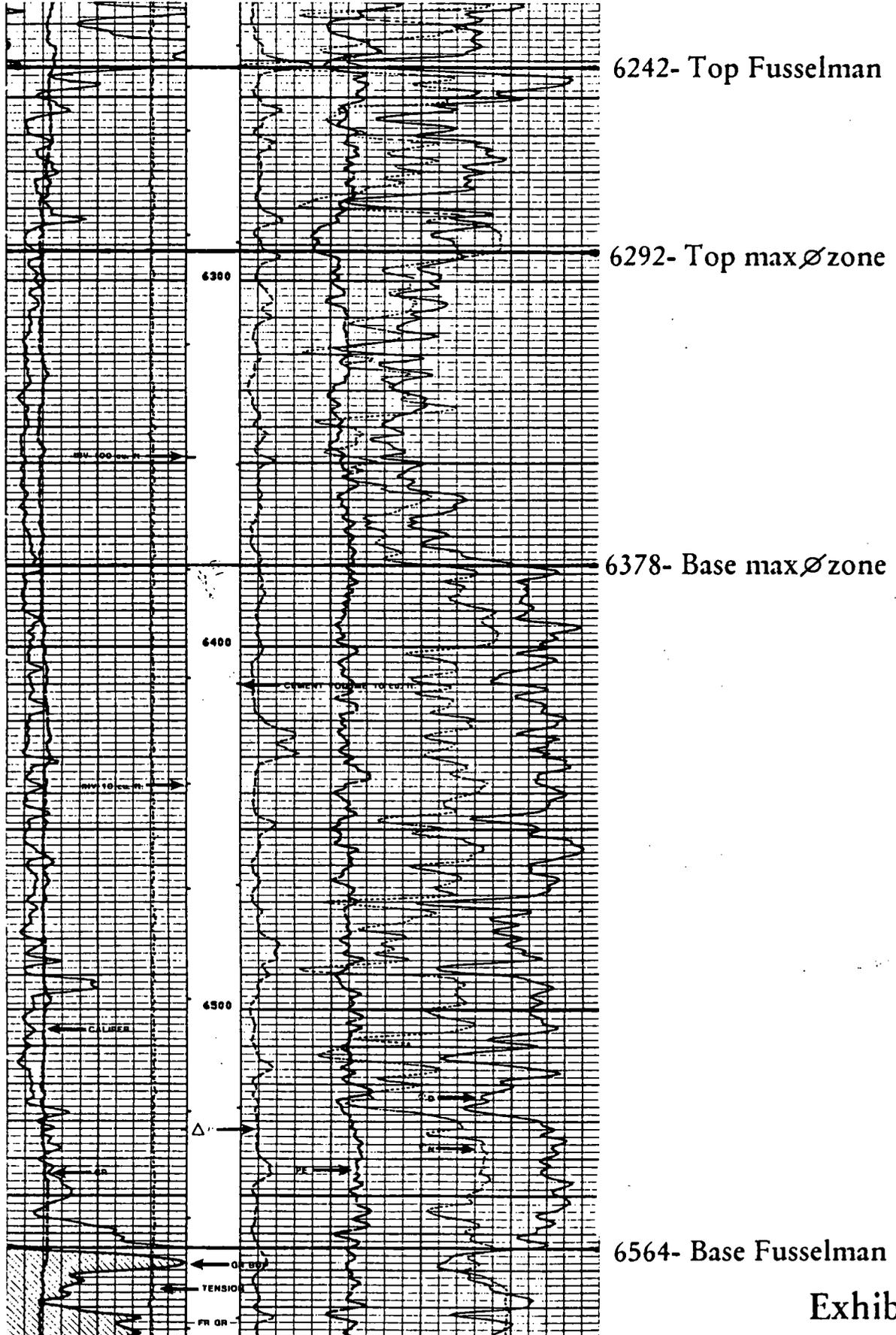


EXHIBIT #5

**YATES PETROLEUM CORPORATION
PATHFINDER AFT ST. #9**

APPLICATION FOR ADMINISTRATIVE APPROVAL FOR DIRECTIONAL WELLBORE

OFFSET OPERATORS AND ADDRESSES

**HANSON OPERATING COMPANY, INC.
PO Box 1515
ROSWELL, NEW MEXICO 88202-1515**

**BYROM LTD. CO.
PO Box 147
HOBBS, NEW MEXICO 88241**

**COMMISSIONER OF PUBLIC LANDS
PO Box 1148
SANTA FE, NEW MEXICO 87504-1148**

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



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DENNIS G. KINSEY
TREASURER

June 2, 1997

Hanson Operating Company, Inc.
PO Box 1515
Roswell, New Mexico 88202-1515

RE: Directional Wellbore

Gentlemen:

Enclosed please find an application for a proposed Directional Wellbore located in Section 21, Township 10 South, Range 27 East, Chaves County, New Mexico. If you have any questions regarding this application, please contact either Eric Cummins, Geologist, or me, at (505) 748-1471.

If you have no objections to the proposed Directional Wellbore, please sign below and return one (1) copy of this letter to Yates Petroleum Corporation.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB:bn
enclosure(s)

_____ has no objections to the proposed Directional Wellbore.

By: _____

Title: _____

Date: _____

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



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June 2, 1997

Byrom Ltd. Co.
PO Box 147
Hobbs, New Mexico 88241

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YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB:bn
enclosure(s)

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By: _____

Title: _____

Date: _____

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105 SOUTH FOURTH STREET
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June 2, 1997

Commissioner of Public Lands
PO Box 1148
Santa Fe, New Mexico 87504-1148

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Very truly yours,

YATES PETROLEUM CORPORATION

A handwritten signature in cursive script that reads 'Robert Bullock'.

Robert Bullock
Landman

RB:bn
enclosure(s)

_____ has no objections to the proposed Directional Wellbore.

By: _____

Title: _____

Date: _____

TRANSMITTAL COVER SHEET

**OIL CONSERVATION DIVISION
ENGINEERING BUREAU
(505) 827-7131 (OFFICE)
(505) 827-1389 (FAX)**

PLEASE DELIVER THIS FAX TO:

TO: Eric Cummins
FROM: Michael E. Stogner
SUBJECT: Palatka "AFI" State # 9
DATE: 6-25-97
PAGES: 6

IF YOU HAVE ANY PROBLEMS RECEIVING THIS FAX, PLEASE CALL THE OFFICE NUMBER ABOVE.

Please review and contact me.

Stogner

M. S.

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1988



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

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SECRETARY
DENNIS G. KINSEY
TREASURER

Fax Cover Sheet

To: Michael Stogner
Company: NMOC
Phone: _____
Fax: 505-827-1389

From: Robert Bullock
Company: Yates Petroleum Corporation
Phone: 505-748-1471
Fax: 505-748-4572

Date: 6-23-97
Pages including this cover page: 4

Comments:

RE: Application for Directional Wellbore
Pathfinder AFT St. #9
T10S, R27E
Section 21: 660' S, 1220' W
Chaves Co, NM

ENCLOSED ARE letters from HANSON Operating Company, Inc., Byron Ltd. Co., & Comm. of Public Lands waiving objection to DIRECTIONAL wellbore

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1936 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

June 2, 1997

Hanson Operating Company, Inc.
PO Box 1515
Roswell, New Mexico 88202-1515

RE: Directional Wellbore

Gentlemen:

Enclosed please find an application for a proposed Directional Wellbore located in Section 21, Township 10 South, Range 27 East, Chaves County, New Mexico. If you have any questions regarding this application, please contact either Eric Cummins, Geologist, or me, at (505) 748-1471.

If you have no objections to the proposed Directional Wellbore, please sign below and return one (1) copy of this letter to Yates Petroleum Corporation.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB:bn
enclosure(s)

Hanson Oper Co. Inc

has no objections to the proposed Directional Wellbore.

By: Ray Williams
Title: Y.P.
Date: 6-12-97

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1926 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
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PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

June 2, 1997

Commissioner of Public Lands
PO Box 1148
Santa Fe, New Mexico 87504-1148

RE: Directional Wellbore

Gentlemen:

Enclosed please find an application for a proposed Directional Wellbore located in Section 21, Township 10 South, Range 27 East, Chaves County, New Mexico. If you have any questions regarding this application, please contact either Eric Cummins, Geologist, or me, at (505) 748-1471.

If you have no objections to the proposed Directional Wellbore, please sign below and return one (1) copy of this letter to Yates Petroleum Corporation.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB:bn
enclosure(s)

The New Mexico State Land Office has no objections to the proposed Directional Wellbore.

By: John Barker

Title: DIRECTOR, OIL, GAS & MINERALS DIVISION

Date: 6/9/97

MARTIN YATES, III
1912 - 1985
FRANK W. YATES
1938 - 1986



105 SOUTH FOURTH STREET
ARTESIA, NEW MEXICO 88210
TELEPHONE (505) 748-1471

S. P. YATES
CHAIRMAN OF THE BOARD
JOHN A. YATES
PRESIDENT
PEYTON YATES
EXECUTIVE VICE PRESIDENT
RANDY G. PATTERSON
SECRETARY
DENNIS G. KINSEY
TREASURER

June 2, 1997

Byrom Ltd. Co.
PO Box 147
Hobbs, New Mexico 88241

RE: Directional Wellbore

Gentlemen:

Enclosed please find an application for a proposed Directional Wellbore located in Section 21, Township 10 South, Range 27 East, Chaves County, New Mexico. If you have any questions regarding this application, please contact either Eric Cummins, Geologist, or me, at (505) 748-1471.

If you have no objections to the proposed Directional Wellbore, please sign below and return one (1) copy of this letter to Yates Petroleum Corporation.

Very truly yours,

YATES PETROLEUM CORPORATION

Robert Bullock
Landman

RB:bn
enclosure(s)

Byrom LTD. Co. has no objections to the proposed Directional Wellbore.

By: [Handwritten Signature]

Title: [Handwritten Title]

Date: 6/6/97

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. 9854
Order No. R-9131

APPLICATION OF STEVENS OPERATING
CORPORATION FOR POOL CREATION AND
SPECIAL POOL RULES, CHAVES COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 7, 1990, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 2nd day of March, 1990, 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, Stevens Operating Corporation (Stevens), seeks the creation of a new pool for the production of oil from the Fusselman formation comprising the S/2 of Section 21 and the N/2 of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico, and for the promulgation of special rules and regulations therefor including provisions for 320-acre oil spacing and proration units, designated well location requirements, a special gas-oil ratio limitation of 20,000 cubic feet of gas per barrel of oil, and a special 320-acre oil allowable of 650 barrels per day.

(3) In addition, the applicant requests that the above-described special pool rules be instituted for a temporary period of nine months in order to allow the operators in the pool time to gather additional reservoir data.

**CASE NO. 9854
Order No. R-9131
Page -2-**

(4) The evidence presented indicates that the Yates Petroleum Corporation Pathfinder "AFT" State Well No. 3 located 1650 feet from the South line and 2310 feet from the West line (Unit K) of said Section 21, which was drilled and completed in 1988, has discovered a separate common source of supply in the Fusselman formation.

(5) In addition, there are currently two other wells which have recently been drilled to and completed in the Fusselman formation in this area, these being the Stevens Operating Corporation McBride State Com Well No. 1 located 660 feet from the North line and 1980 feet from the West line (Unit C) of said Section 28, and the Yates Petroleum Corporation Pathfinder "AFT" State Well No. 6 located 1980 feet from the North and West lines (Unit F) of said Section 21.

(6) All three of the above-described wells were drilled on 320-acre gas spacing in accordance with Division General Rule No. 104 (C)(II) in anticipation of encountering a gas pool within said Fusselman formation.

(7) The geologic and engineering evidence currently available indicates that the subject reservoir is actually an oil pool which contains a significant gas cap, has definable oil-gas and oil-water contacts, and is bounded by north-south trending faults which limit the extent of the reservoir to portions of Sections 21, 28 and possibly 33.

(8) Yates Petroleum Corporation (Yates), the only other operator in the pool at the present time, appeared at the hearing in opposition to Steven's proposed gas-oil ratio limitation, oil allowable, and nine-month test period and in support of ninety-day temporary special pool rules including 320-acre well spacing, a gas-oil ratio limitation of 2,000 cubic feet of gas per barrel of oil and an oil allowable of 222 barrels per day.

(9) Stevens contends that its proposed gas-oil ratio limitation and oil allowable as described above are necessary: (1) in order to produce liquid hydrocarbons from its McBride State Com Well No. 1, which, according to production test data, is currently incapable of producing oil at a gas producing rate of less than 0.7 MMCFG per day, and (2) in order to obtain necessary test data to determine the most efficient gas-oil ratio and rate of production for the subject reservoir.

(10) The producing characteristics exhibited by the McBride State Com Well No. 1 are due, at least in part, to its current completion, which, according to the evidence presented, may be improper for this type of reservoir.

**CASE NO. 9854
Order No. R-9131
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(11) The gas-oil ratio and oil allowable proposed by Yates, if approved, would preclude the production of oil from the McBride State Com Well No. 1 unless physical changes in the well's completion are performed.

(12) Although physical changes in the wellbore of said McBride State Com Well No. 1 may ultimately be determined necessary in order to efficiently produce the liquid hydrocarbons from the subject reservoir, there is some evidence available at the present time which indicates that the subject reservoir may be vertically fractured which could render any workover operations on the subject well ineffective.

(13) According to the more complete geologic and seismic evidence presented by Yates in this case, the subject reservoir is limited to an area of approximately 355 acres.

(14) Both Yates and Stevens presented original oil and gas in place estimates for the subject reservoir, and, because these estimates are critical in determining oil and gas allowables for the subject pool, the more conservative estimates provided by Yates should be utilized.

(15) According to Yate's estimates, the original oil and gas in place within the subject reservoir is approximately 9.1 million barrels of oil and 16.4 BCF of gas.

(16) The oil allowable and gas-oil ratio limitation proposed by Stevens, which would amount to a gas allowable of 13 MMCFG per day, may cause serious and irreversible damage to the reservoir by depleting, during the proposed nine month test period, upwards to 43% of the gas contained within the gas cap, which may in turn result in a substantial amount of oil left unrecovered in the reservoir, thereby causing waste.

(17) According to testimony by Stevens, the producing gas rate during the test period would not likely exceed 2.5 MMCFG per day which indicates that the gas-oil ratio and oil allowable proposed by Stevens in this case are excessive and unnecessary.

(18) In addition, according to testimony by Yates, a test period of ninety days should be sufficient time to gather additional reservoir data needed to determine the proper temporary spacing and most efficient rate of production for the subject pool.

**CASE NO. 9854
Order No. R-9131
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(19) The nine-month test period, oil allowable, and gas-oil ratio limitation proposed by Stevens in this case are unnecessary, excessive, and may cause reservoir damage, and should therefore be effectively reduced.

(20) At the present time, there is insufficient information regarding the appropriate well spacing for the subject pool; however, the geologic evidence presented suggests that due to the limited extent of the reservoir, the proposed 320-acre well spacing is excessive.

(21) In order to prevent the drilling of unnecessary wells during the interim test period and until further data is obtained regarding the appropriate spacing for this pool, the subject pool should be drilled and spaced on 160-acre oil proration units, and the subject pool should be assigned a depth bracket allowable of 382 barrels of oil per day in accordance with the depth bracket allowable provisions of Division General Rule No. 505.

(22) A new pool classified as an oil pool for Fusselman production should be created and designated the Diablo-Fusselman Pool, with horizontal limits comprising the S/2 of Section 21 and the N/2 of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico.

(23) Temporary ninety-day special rules and regulations should be promulgated for the Diablo-Fusselman Pool which provide for 160-acre oil proration units, an oil allowable of 382 barrels of oil per day, and a gas-oil ratio limitation of 6,500 cubic feet of gas per barrel of oil which will: (1) allow Stevens the opportunity to test and produce its McBride State Com Well No. 1, (2) allow sufficient time for both operators to gather additional reservoir data, and (3) should not cause reservoir damage inasmuch as the total volume of gas produced during this test period for the entire pool is approximately 2.7% of the original gas in place.

(24) The temporary special rules and regulations should also provide for restrictive well locations in order to assure orderly development of the pool and protect correlative rights.

(25) This case should be reopened at an examiner hearing in May, 1990, at which time the operators in the subject pool should be prepared to appear and present evidence, testimony and recommendations regarding the proper spacing and most efficient rate of production for the Diablo-Fusselman Pool.

CASE NO. 9854
Order No. R-9131
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IT IS THEREFORE ORDERED THAT:

(1) A new pool in Chaves County, New Mexico, classified as an oil pool for Fusselman production, is hereby created and designated the Diablo-Fusselman Pool, with horizontal limits comprising the S/2 of Section 21 and the N/2 of Section 28, Township 10 South, Range 27 East, NMPM.

(2) Stevens Operating Corporation's proposed temporary special rules and regulations for the Diablo-Fusselman Pool, including provisions for 320-acre well spacing, a gas-oil ratio limitation of 20,000 cubic feet of gas per barrel of oil, an oil allowable of 650 barrels of oil per day, and a nine-month test period are hereby modified as described below.

(3) Ninety-day Temporary Special Rules and Regulations for said pool are hereby promulgated as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
DIABLO-FUSSELMAN POOL**

RULE 1. Each well completed or recompleted in the Diablo-Fusselman Pool or in the Fusselman formation within one mile thereof, and not nearer to or within the limits of another designated Fusselman Pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules hereinafter set forth.

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 Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located no nearer than 660 feet to the outer boundary of the proration unit or 330 feet to any governmental quarter-quarter section line or subdivision inner boundary; nor nearer than 1320 feet to the nearest well drilling to or capable of producing from the same pool.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard proration unit (158 through 162 acres) shall be based on a depth bracket allowable of 382 barrels per day with a corresponding gas-oil ratio limitation of 6,500 cubic feet of gas per barrel of oil, and in the event there is more than one well on an 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:

(3) The locations of all wells presently drilling to or completed in the Diablo-Fusselman Pool or in the Fusselman formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Artesia district office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(4) Pursuant to Paragraph A. of Section 70-2-18, N.M.S.A. 1987 Comp., contained in Laws of 1969, Chapter 271, existing oil wells in the Diablo-Fusselman Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

CASE NO. 9854
Order No. R-9131
Page -7-

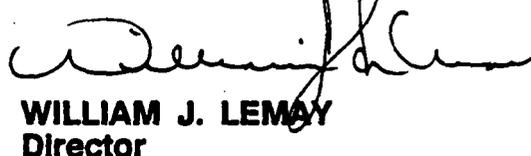
Failure to file new Forms C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable until a non-standard spacing unit has been approved and, subject to said 60-day limitation, each well presently drilling to or completed in the Diablo-Fusselman Pool or in its corresponding vertical limits within one mile thereof, shall receive no more than one-half of a standard allowable for said pool.

(5) This case shall be reopened at an examiner hearing in May, 1990, at which time the operators in the subject pool should be prepared to appear and present evidence, testimony and recommendations regarding the proper spacing and most efficient rate of production for the Diablo-Fusselman Pool.

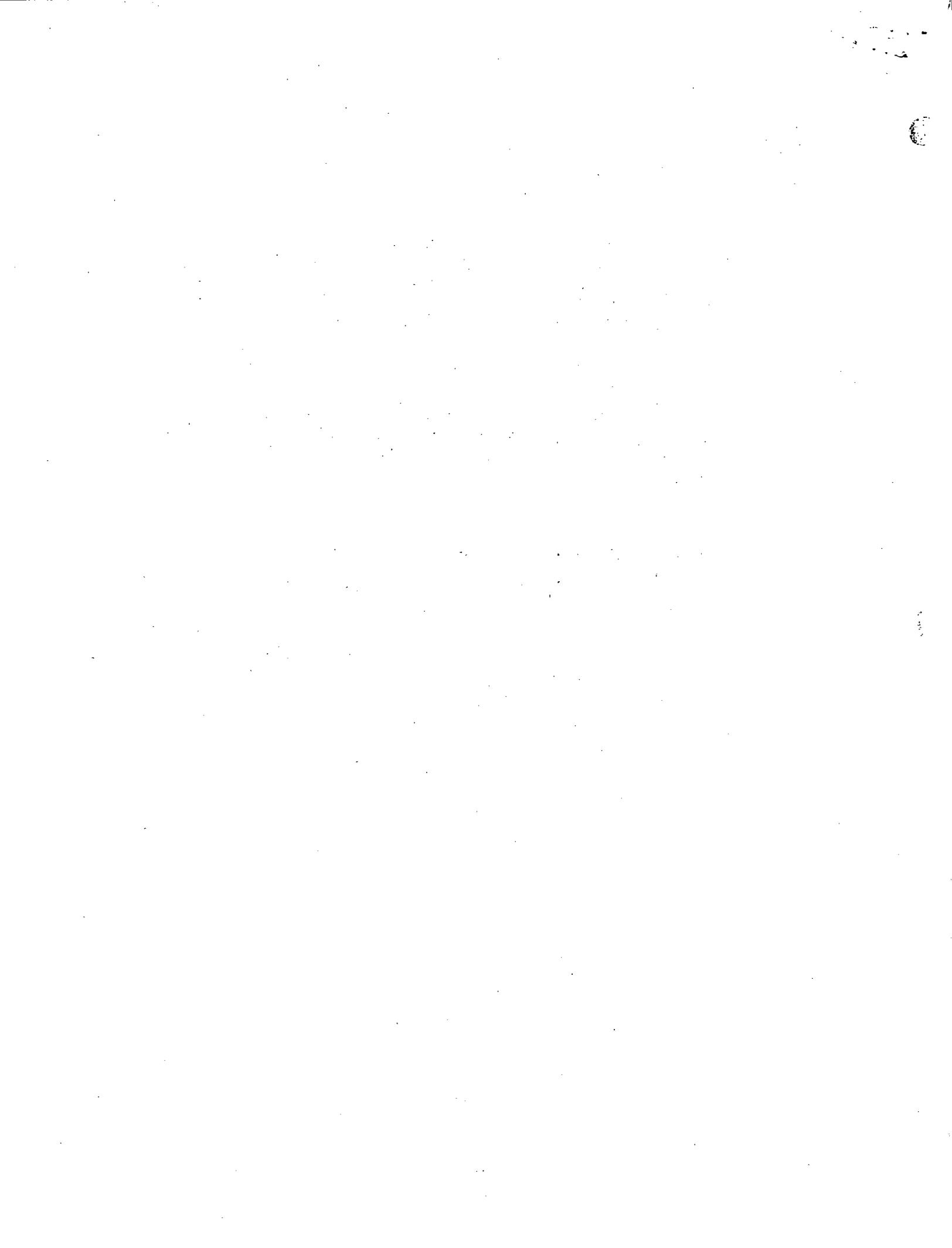
(6) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

S E A L



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. 9854(REOPENED)
ORDER NOS. R-9131-A
R-5353-K

IN THE MATTER OF CASE 9854 BEING REOPENED PURSUANT TO THE PROVISIONS OF DIVISION ORDER NO. R-9131, WHICH CREATED, DEFINED, AND PROMULGATED TEMPORARY SPECIAL RULES AND REGULATIONS INCLUDING PROVISIONS FOR 160-ACRE SPACING AND PRORATION UNITS, DESIGNATED WELL LOCATION REQUIREMENTS, AND ESTABLISHED A GAS/OIL RATIO (GOR) LIMITATION OF 6,500 CUBIC FEET OF GAS PER BARREL OF OIL FOR THE DIABLO-FUSSELMAN POOL, CHAVES COUNTY, NEW MEXICO.

FURTHER, THE APPLICANT IN THE ORIGINAL CASE, STEVENS OPERATING CORPORATION, NOW SEEKS TO INCLUDE WITHIN SAID SPECIAL RULES, PROVISIONS FOR ADMINISTRATIVE AUTHORIZATION FOR HORIZONTAL/HIGH-ANGLE WELLBORES.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of August, 1990, 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.

Case No. 9854

Order No. R-9131-A
R-5353-K

Page No. 2

(2) By Division Order No. R-9131, issued in Case No. 9854 and dated March 2, 1990, the Division created and defined the Diablo-Fusselman Pool for the production of oil from the Fusselman formation with horizontal limits comprising the S/2 of Section 21 and the N/2 of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico. Said order also promulgated Special Rules and Regulations for the pool including provisions for 160-acre spacing and proration units, designated well location requirements and established a Gas/Oil Ratio (GOR) limitation of 6500 cubic feet of gas per barrel of oil.

(3) Order No. R-9131 also provided that Case No. 9854 be reopened in May, 1990, at which time the operators in the pool would appear and present evidence, testimony and recommendations regarding the proper spacing and most efficient rate of production for the Diablo-Fusselman Pool.

(4) Following the entry of Order No. R-9131, Stevens Operating Corporation filed an application seeking adoption of an administrative procedure for approval of horizontal/high-angle drilling in the Diablo-Fusselman Pool.

(5) Stevens Operating Corporation (Stevens) and Yates Petroleum Corporation (Yates) are currently the only two operators in the Diablo-Fusselman Pool and both appeared and presented testimony in the reopened case.

(6) At this time, both Yates and Stevens request that said Special Rules be amended to also include provisions for 80-acre spacing, an 80-acre depth bracket allowable of 222 barrels of oil per day (pursuant to General Rule 505(a)), a continuation of the 6500 to 1 gas/oil ratio limitation, and designated well location requirements such that each well be no closer than 330 feet from the outer boundary of its spacing and proration unit.

(7) The geological and engineering testimony presented at the time of the hearing substantiates further Finding Paragraph No. (7) of said Order No. R-9131 that the Fusselman formation in the defined area of this pool consists of an excessively thick and distinct gas cap with no oil saturation, a thin oil column and finally a very active water drive mechanism underneath. This evidence indicates therefore that said pool should properly be classified as an "Associated Pool" and all further development of this pool should proceed under the "General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico" governing such as promulgated by Division Order No. R-5353, as amended.

Case No. 9854
Order No. R-9131-A
R-5353-K
Page No. 3

(8) The Diablo-Fusselman Pool should therefore be reclassified as the Diablo-Fusselman Associated Pool and, pursuant to the cumulative evidence available to date, wells classified as oil may be efficiently and economically developed on 80-acre spacing units and gas wells should remain on 160-acre spacing units as originally allowed under Order No. R-9131.

(9) The temporary special rules and regulations should also be promulgated to provide for restrictive well locations in order to assure orderly development of the pool and protect correlative rights.

(10) The applicant's request for a pool-wide administrative procedure for horizontal/high-angle drilling is somewhat premature for this pool at its present stage of development and should therefore be denied.

(11) However, adequate evidence was presented at the hearing and sufficient notice was given in this matter to allow Stevens to proceed with its plans to initiate a horizontal drilling pilot project on its McBride State Com Well No. 1 located 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico.

(12) Stevens proposes to dedicate said well to a standard 80-acre oil spacing and proration unit (pursuant to the proposed amended rules) comprising the N/2 NW/4 of said Section 28 and to initiate a horizontal drilling pilot project therein.

(13) Conventionally drilled (vertical) wells completed in the oil column of this pool have experienced significant "coning", both down from the gas cap and up from the water zone.

(14) By drilling this test well horizontally within the thin oil-bearing column, Stevens is attempting to show that coning can be alleviated by creating a small pressure drop along the large length of a horizontal wellbore instead of a large pressure drop through a small area available to a vertical wellbore. Because there should be larger reservoir contact by a horizontal wellbore, more efficient drainage of the reservoir should result.

Case No. 9854

Order No. R-9131-A
R-5353-K

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(15) Stevens proposes to utilize said McBride State Com No. 1 by plugging back to approximately the base of the "Chert Marker" (approximate depth of 6260 feet), cut a window in the 5 1/2-inch casing and drill a 90-degree turn-off of vertical to horizontal utilizing a medium or intermediate radius curve of 100 feet (57 degrees build per 100 feet) in a westerly direction (260 degrees azimuth), wherefrom a 1000 foot horizontal section will complete the drilling portion of the wellbore. A 2 7/8-inch slotted liner will be placed in the horizontal portion of the wellbore. At the base of the curved portion of the wellbore, the non-perforated 2 7/8-inch tubing will be cemented back into the vertical hole.

(16) To allow for "flexibility", to minimize risk and maximize the success of such a completion, the designation of a prescribed area limiting the horizontal displacement of the wellbore should be adopted such that the producing interval of the well cannot be any closer than 100 feet to the outer boundary of the proposed proration unit (N/2 NW/4 of said Section 28).

(17) No interested party objected to Stevens' request to drill said well in the above-described method. In fact said proposal was supported by Yates.

(18) The applicant should be required to determine the actual location of the kick-off point prior to directional drilling operations. Also, the applicant should notify the supervisor of the Artesia District Office of the Division of the proposed direction of the deviated hole and of the date and time of commencement of the directional drilling in order that the same may be witnessed.

(19) The applicant should be required to conduct a directional survey on the lateral portion of the wellbore during or after completion of the drilling operations on the well and submit copies of all such surveys to both the Santa Fe and Artesia Offices of the Division.

(20) At the time of the hearing, the applicant requested a four month time period to gather and evaluate additional reservoir information and respond to any rule changes to the subject Fusselman pool.

(21) Four months is an insufficient period of time for proper evaluation of this pool under said rules, therefore, a longer time frame of 12 months should be adopted unless any party should request otherwise.

Case No. 9854

Order No. R-9131-A
R-5353-K

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(22) This case should be reopened at an Examiner Hearing in August, 1991 at which time the operators of the pool should be prepared to appear and show cause why said pool should not be reclassified as either a gas pool or an oil pool, to be governed by such applicable statewide rules or to make any such recommendations regarding the proper spacing and development for said pool on a permanent basis.

IT IS THEREFORE ORDERED THAT:

(1) Effective August 1, 1990, the Diablo-Fusselman Pool in Chaves County, New Mexico is hereby reclassified as an associated pool and redesignated the Diablo-Fusselman Associated Pool.

(2) The Special Rules and Regulations for the Diablo-Fusselman Pool as promulgated by Division Order No. R-9131, dated March 2, 1990, are hereby superseded by this order.

(3) The Diablo-Fusselman Associated Pool shall be governed by the General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico, as promulgated by Order No. R-5353, as amended, insofar as said General Rules and Regulations are not inconsistent with the Special Rules and Regulations for the subject pool as hereinafter set forth, in which event the Special Rules shall apply.

SPECIAL RULES AND REGULATIONS
FOR THE
DIABLO FUSSELMAN ASSOCIATED POOL

RULE 2. (a) A standard oil proration unit shall be 80 acres. A standard gas proration unit shall be 160 acres.

RULE 2. (b) Each well, oil or gas, shall be located no closer than 330 feet to the outer boundary of the proration unit or 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

RULE 6. The limiting gas-oil ratio shall be 6,500 cubic feet of gas for each barrel of oil produced.

Case No. 9854
Order No. R-9131-A
R-5353-K
Page No. 6

IT IS FURTHER ORDERED THAT:

(4) The locations of all wells presently drilling to or completed in the Diablo-Fusselman Associated Pool or in the Fusselman formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Artesia District Office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(5) Pursuant to Paragraph A. of Section 70-2-18, N.M.S.A. 1978 Comp., contained in the Laws 1969, Chapter 271, existing oil wells in the Diablo-Fusselman Associated Pool shall have dedicated thereto 80 acres and existing gas wells shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said 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 the appropriate acreage 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. Until said form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the Diablo-Fusselman Associated Pool or in the formation within one mile thereof shall receive no more than a 40-acre allowable for the pool.

(6) The applicant's request to include provisions for an administrative procedure to authorize horizontal/high-angle drilling with the above Special Pool Rules and Regulations for the Diablo-Fusselman Pool is hereby denied.

IT IS FURTHER ORDERED THAT

(7) Stevens Operating Corporation is hereby authorized to conduct a horizontal directional drilling pilot project comprising the N/2 NW/4 of Section 28, Township 10 South, Range 27 East, NMPM, Diablo-Fusselman Associated Pool, Chaves County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit for said pool.

Case No. 9854

Order No. R-9131-A
R-5353-K

Page No. 7

(8) The applicant is further authorized to plug-back, sidetrack and directionally drill horizontally through the oil-bearing zone of the Fusselman formation in its McBride State Com Well No. 1 located 660 feet from the North line and 1980 feet from the West line (Unit C) of said Section 28 by cutting a window in the 5 1/2-inch casing at a depth of approximately 6260 feet in a westerly direction, deviate to approximately 90 degrees and drill horizontally for 1000 feet. Said well is to be completed with a slotted 2 7/8-inch liner to be set in the horizontal portion of the hole.

(9) The lateral extent of the horizontal wellbore shall be such that the producing interval be no closer than 100 feet to the outer boundary of said proration unit.

(10) The geographic location of the kick-off point for the proposed horizontal well shall be determined prior to directional drilling. Also, the operator shall notify the supervisor of the Artesia District Office of the Division of the proposed direction of the deviated hole and of the date and time of the directional drilling in order that the same may be witnessed.

(11) The applicant shall conduct a directional drilling survey on the well during or after completion of horizontal drilling operations.

(12) Upon completion of the horizontal drilling operations on the well, the applicant shall file copies of all such directional drilling surveys along with a final report specifying the depth and location of the terminus of said horizontal wellbore to both the Santa Fe and Artesia Offices of the Division.

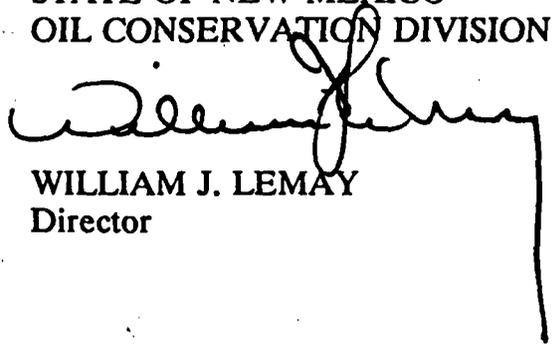
(13) This case shall be reopened at an Examiner Hearing in August, 1991, or sooner if requested by any operator in said pool. At such time the operators in the pool should be prepared to appear and show cause why said pool should not be reclassified as either a gas pool or oil pool, to be governed by applicable statewide rules or to make any such recommendations regarding the proper spacing and development for said pool on a permanent basis.

Case No. 9854
Order No. R-9131-A
R-5353-K
Page No. 8

(14) 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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

SEAL

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 9854 (DE NOVO)
Order No. R-9131-B

APPLICATION OF STEVENS
OPERATING CORPORATION
FOR POOL CREATION AND
SPECIAL POOL RULES,
CHAVES COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on January 17, 1991, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 5th day of February, 1991, the Commission, a quorum being present, having considered the record and being fully advised in the premises,

FINDS THAT:

Yates Petroleum Corporation, as applicant for hearing De Novo in this case, has requested dismissal thereof and such request should be granted.

IT IS THEREFORE ORDERED THAT:

Case 9854 De Novo is hereby dismissed and Division Order No. R-9131, as amended, is hereby continued in full force and effect until further notice.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JAMI BAILEY, Member


WILLIAM W. WEISS, Member


WILLIAM J. LEMAY, Chairman

S E A L



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. 9854(REOPENED)
ORDER NOS. R-9131-A
R-5353-K

IN THE MATTER OF CASE 9854 BEING REOPENED PURSUANT TO THE PROVISIONS OF DIVISION ORDER NO. R-9131, WHICH CREATED, DEFINED, AND PROMULGATED TEMPORARY SPECIAL RULES AND REGULATIONS INCLUDING PROVISIONS FOR 160-ACRE SPACING AND PRORATION UNITS, DESIGNATED WELL LOCATION REQUIREMENTS, AND ESTABLISHED A GAS/OIL RATIO (GOR) LIMITATION OF 6,500 CUBIC FEET OF GAS PER BARREL OF OIL FOR THE DIABLO-FUSSELMAN POOL, CHAVES COUNTY, NEW MEXICO.

FURTHER, THE APPLICANT IN THE ORIGINAL CASE, STEVENS OPERATING CORPORATION, NOW SEEKS TO INCLUDE WITHIN SAID SPECIAL RULES, PROVISIONS FOR ADMINISTRATIVE AUTHORIZATION FOR HORIZONTAL/HIGH-ANGLE WELLBORES.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of August, 1990, 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.

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(2) By Division Order No. R-9131, issued in Case No. 9854 and dated March 2, 1990, the Division created and defined the Diablo-Fusselman Pool for the production of oil from the Fusselman formation with horizontal limits comprising the S/2 of Section 21 and the N/2 of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico. Said order also promulgated Special Rules and Regulations for the pool including provisions for 160-acre spacing and proration units, designated well location requirements and established a Gas/Oil Ratio (GOR) limitation of 6500 cubic feet of gas per barrel of oil.

(3) Order No. R-9131 also provided that Case No. 9854 be reopened in May, 1990, at which time the operators in the pool would appear and present evidence, testimony and recommendations regarding the proper spacing and most efficient rate of production for the Diablo-Fusselman Pool.

(4) Following the entry of Order No. R-9131, Stevens Operating Corporation filed an application seeking adoption of an administrative procedure for approval of horizontal/high-angle drilling in the Diablo-Fusselman Pool.

(5) Stevens Operating Corporation (Stevens) and Yates Petroleum Corporation (Yates) are currently the only two operators in the Diablo-Fusselman Pool and both appeared and presented testimony in the reopened case.

(6) At this time, both Yates and Stevens request that said Special Rules be amended to also include provisions for 80-acre spacing, an 80-acre depth bracket allowable of 222 barrels of oil per day (pursuant to General Rule 505(a)), a continuation of the 6500 to 1 gas/oil ratio limitation, and designated well location requirements such that each well be no closer than 330 feet from the outer boundary of its spacing and proration unit.

(7) The geological and engineering testimony presented at the time of the hearing substantiates further Finding Paragraph No. (7) of said Order No. R-9131 that the Fusselman formation in the defined area of this pool consists of an excessively thick and distinct gas cap with no oil saturation, a thin oil column and finally a very active water drive mechanism underneath. This evidence indicates therefore that said pool should properly be classified as an "Associated Pool" and all further development of this pool should proceed under the "General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico" governing such as promulgated by Division Order No. R-5353, as amended.

Case No. 9854

Order No. R-9131-A
R-5353-K

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(8) The Diablo-Fusselman Pool should therefore be reclassified as the Diablo-Fusselman Associated Pool and, pursuant to the cumulative evidence available to date, wells classified as oil may be efficiently and economically developed on 80-acre spacing units and gas wells should remain on 160-acre spacing units as originally allowed under Order No. R-9131.

(9) The temporary special rules and regulations should also be promulgated to provide for restrictive well locations in order to assure orderly development of the pool and protect correlative rights.

(10) The applicant's request for a pool-wide administrative procedure for horizontal/high-angle drilling is somewhat premature for this pool at its present stage of development and should therefore be denied.

(11) However, adequate evidence was presented at the hearing and sufficient notice was given in this matter to allow Stevens to proceed with its plans to initiate a horizontal drilling pilot project on its McBride State Com Well No. 1 located 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico.

(12) Stevens proposes to dedicate said well to a standard 80-acre oil spacing and proration unit (pursuant to the proposed amended rules) comprising the N/2 NW/4 of said Section 28 and to initiate a horizontal drilling pilot project therein.

(13) Conventionally drilled (vertical) wells completed in the oil column of this pool have experienced significant "coning", both down from the gas cap and up from the water zone.

(14) By drilling this test well horizontally within the thin oil-bearing column, Stevens is attempting to show that coning can be alleviated by creating a small pressure drop along the large length of a horizontal wellbore instead of a large pressure drop through a small area available to a vertical wellbore. Because there should be larger reservoir contact by a horizontal wellbore, more efficient drainage of the reservoir should result.

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Order No. R-9131-A

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(15) Stevens proposes to utilize said McBride State Com No. 1 by plugging back to approximately the base of the "Chert Marker" (approximate depth of 6260 feet), cut a window in the 5 1/2-inch casing and drill a 90-degree turn-off of vertical to horizontal utilizing a medium or intermediate radius curve of 100 feet (57 degrees build per 100 feet) in a westerly direction (260 degrees azimuth), wherefrom a 1000 foot horizontal section will complete the drilling portion of the wellbore. A 2 7/8-inch slotted liner will be placed in the horizontal portion of the wellbore. At the base of the curved portion of the wellbore, the non-perforated 2 7/8-inch tubing will be cemented back into the vertical hole.

(16) To allow for "flexibility", to minimize risk and maximize the success of such a completion, the designation of a prescribed area limiting the horizontal displacement of the wellbore should be adopted such that the producing interval of the well cannot be any closer than 100 feet to the outer boundary of the proposed proration unit (N/2 NW/4 of said Section 28).

(17) No interested party objected to Stevens' request to drill said well in the above-described method. In fact said proposal was supported by Yates.

(18) The applicant should be required to determine the actual location of the kick-off point prior to directional drilling operations. Also, the applicant should notify the supervisor of the Artesia District Office of the Division of the proposed direction of the deviated hole and of the date and time of commencement of the directional drilling in order that the same may be witnessed.

(19) The applicant should be required to conduct a directional survey on the lateral portion of the wellbore during or after completion of the drilling operations on the well and submit copies of all such surveys to both the Santa Fe and Artesia Offices of the Division.

(20) At the time of the hearing, the applicant requested a four month time period to gather and evaluate additional reservoir information and respond to any rule changes to the subject Fusselman pool.

(21) Four months is an insufficient period of time for proper evaluation of this pool under said rules, therefore, a longer time frame of 12 months should be adopted unless any party should request otherwise.

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(22) This case should be reopened at an Examiner Hearing in August, 1991 at which time the operators of the pool should be prepared to appear and show cause why said pool should not be reclassified as either a gas pool or an oil pool, to be governed by such applicable statewide rules or to make any such recommendations regarding the proper spacing and development for said pool on a permanent basis.

IT IS THEREFORE ORDERED THAT:

(1) Effective August 1, 1990, the Diablo-Fusselman Pool in Chaves County, New Mexico is hereby reclassified as an associated pool and redesignated the Diablo-Fusselman Associated Pool.

(2) The Special Rules and Regulations for the Diablo-Fusselman Pool as promulgated by Division Order No. R-9131, dated March 2, 1990, are hereby superseded by this order.

(3) The Diablo-Fusselman Associated Pool shall be governed by the General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico, as promulgated by Order No. R-5353, as amended, insofar as said General Rules and Regulations are not inconsistent with the Special Rules and Regulations for the subject pool as hereinafter set forth, in which event the Special Rules shall apply.

SPECIAL RULES AND REGULATIONS
FOR THE
DIABLO FUSSELMAN ASSOCIATED POOL

RULE 2. (a) A standard oil proration unit shall be 80 acres. A standard gas proration unit shall be 160 acres.

RULE 2. (b) Each well, oil or gas, shall be located no closer than 330 feet to the outer boundary of the proration unit or 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

RULE 6. The limiting gas-oil ratio shall be 6,500 cubic feet of gas for each barrel of oil produced.

Case No. 9854
Order No. R-9131-A
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IT IS FURTHER ORDERED THAT:

(4) The locations of all wells presently drilling to or completed in the Diablo-Fusselman Associated Pool or in the Fusselman formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Artesia District Office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(5) Pursuant to Paragraph A. of Section 70-2-18, N.M.S.A. 1978 Comp., contained in the Laws 1969, Chapter 271, existing oil wells in the Diablo-Fusselman Associated Pool shall have dedicated thereto 80 acres and existing gas wells shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said 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 the appropriate acreage 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. Until said form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the Diablo-Fusselman Associated Pool or in the formation within one mile thereof shall receive no more than a 40-acre allowable for the pool.

(6) The applicant's request to include provisions for an administrative procedure to authorize horizontal/high-angle drilling with the above Special Pool Rules and Regulations for the Diablo-Fusselman Pool is hereby denied.

IT IS FURTHER ORDERED THAT

(7) Stevens Operating Corporation is hereby authorized to conduct a horizontal directional drilling pilot project comprising the N/2 NW/4 of Section 28, Township 10 South, Range 27 East, NMPM, Diablo-Fusselman Associated Pool, Chaves County, New Mexico, thereby forming a standard 80-acre oil spacing and proration unit for said pool.

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(8) The applicant is further authorized to plug-back, sidetrack and directionally drill horizontally through the oil-bearing zone of the Fusselman formation in its McBride State Com Well No. 1 located 660 feet from the North line and 1980 feet from the West line (Unit C) of said Section 28 by cutting a window in the 5 1/2-inch casing at a depth of approximately 6260 feet in a westerly direction, deviate to approximately 90 degrees and drill horizontally for 1000 feet. Said well is to be completed with a slotted 2 7/8-inch liner to be set in the horizontal portion of the hole.

(9) The lateral extent of the horizontal wellbore shall be such that the producing interval be no closer than 100 feet to the outer boundary of said proration unit.

(10) The geographic location of the kick-off point for the proposed horizontal well shall be determined prior to directional drilling. Also, the operator shall notify the supervisor of the Artesia District Office of the Division of the proposed direction of the deviated hole and of the date and time of the directional drilling in order that the same may be witnessed.

(11) The applicant shall conduct a directional drilling survey on the well during or after completion of horizontal drilling operations.

(12) Upon completion of the horizontal drilling operations on the well, the applicant shall file copies of all such directional drilling surveys along with a final report specifying the depth and location of the terminus of said horizontal wellbore to both the Santa Fe and Artesia Offices of the Division.

(13) This case shall be reopened at an Examiner Hearing in August, 1991, or sooner if requested by any operator in said pool. At such time the operators in the pool should be prepared to appear and show cause why said pool should not be reclassified as either a gas pool or oil pool, to be governed by applicable statewide rules or to make any such recommendations regarding the proper spacing and development for said pool on a permanent basis.

Case No. 9854

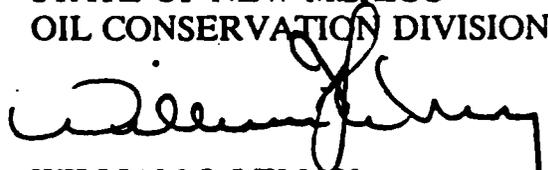
Order No. R-9131-A
R-5353-K

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(14) 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 hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

SEAL

**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. 9854 (Reopened)
Order Nos. R-9131-C
R-5353-K-1**

**IN THE MATTER OF CASE 9854 BEING REOPENED
PURSUANT TO THE PROVISIONS OF DIVISION ORDER
NOS. R-9131-A/R-5353-K, WHICH ORDER RECLASSIFIED
THE DIABLO-FUSSELMAN POOL IN CHAVES COUNTY, NEW
MEXICO AS AN ASSOCIATED POOL WITH SPECIAL RULES
AND REGULATIONS INCLUDING PROVISIONS FOR 80-ACRE
OIL AND 160-ACRE GAS SPACING AND PRORATION UNITS,
DESIGNATED WELL LOCATION REQUIREMENTS, AND
ESTABLISHED A GAS/OIL RATIO (GOR) LIMITATION OF
6,500 CUBIC FEET OF GAS PER BARREL OF OIL.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 2, 1992, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 15th day of April, 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) By Order No. R-9131 issued in Case No. 9854 on March 2, 1990, the Division, upon application of Stevens Operating Corporation, created, defined and promulgated 90-day Temporary Special Rules and Regulations for the Diablo-Fusselman Pool located in portions of Sections 21 and 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico, including a provision for 160-acre oil spacing, designated well location requirements, an oil allowable of 382 barrels of oil per day, and a limiting gas-oil ratio (GOR) of 6,500 cubic feet of gas per barrel of oil.

CASE NO. 9854 (Reopened)

Order No. R-9131-C

R-5353-K-1

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(3) By Order No. R-9131-A/R-5353-K issued in reopened Case No. 9854 on August 3, 1990, the Division reclassified the subject pool as an associated pool, and promulgated one year Temporary Special Rules and Regulations for the Diablo-Fusselman Associated Pool, including provisions for 80-acre oil and 160-acre gas spacing and proration units, designated well location requirements, an oil allowable of 222 barrels of oil per day, and a limiting gas-oil ratio (GOR) of 6,500 cubic feet of gas per barrel of oil.

(4) Pursuant to the provisions of said Order Nos. R-9131-A/R-5353-K, this case was reopened to allow the operators in the subject pool the opportunity to appear and show cause why the Temporary Special Rules and Regulations for the Diablo-Fusselman Associated Pool should not be rescinded and the pool be developed on statewide 40-acre oil spacing units.

(5) Yates Petroleum Corporation (Yates), one of only two operators in the subject pool, appeared at the hearing and presented evidence and testimony in support of continuation of the temporary special rules and regulations.

(6) According to evidence presented, there are currently six producing oil wells and three producing gas wells in the subject pool of which Yates operates four oil wells and two gas wells. The remaining wells in the pool are operated by Hanson Operating Company, Inc.

(7) Yates testified that it is unlikely that any additional wells will be drilled in the subject pool.

(8) Hanson Operating Company, Inc. did not appear and present evidence and testimony in this case.

(9) The evidence and testimony presented in this case indicate that the remaining oil and gas reserves in the Diablo-Fusselman Associated Pool can best be produced and depleted under the current temporary special rules and regulations.

(10) The special rules and regulations promulgated by Order Nos. R-9131-A/R-5353-K have afforded and will afford the owner of each property in the pool the opportunity to produce his just and equitable share of the oil and gas in the pool.

CASE NO. 9854 (Reopened)
Order No. R-9131-C
R-5353-K-1

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(11) In order to prevent the economic loss caused by the drilling of an excessive number of wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells and to otherwise prevent waste and protect correlative rights, Order Nos. R-9131-A/R-5353-K should be continued in full force and effect until further order of the Division.

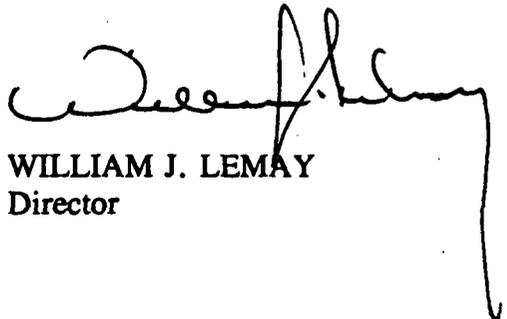
IT IS THEREFORE ORDERED THAT:

(1) The Special Rules and Regulations governing the Diablo-Fusselman Associated Pool, Chaves County, New Mexico, promulgated by Division Order No. R-9131-A/R-5353-K are hereby continued in full force and effect until further order of the Division.

(2) 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



WILLIAM J. LEMAY
Director

S E A L



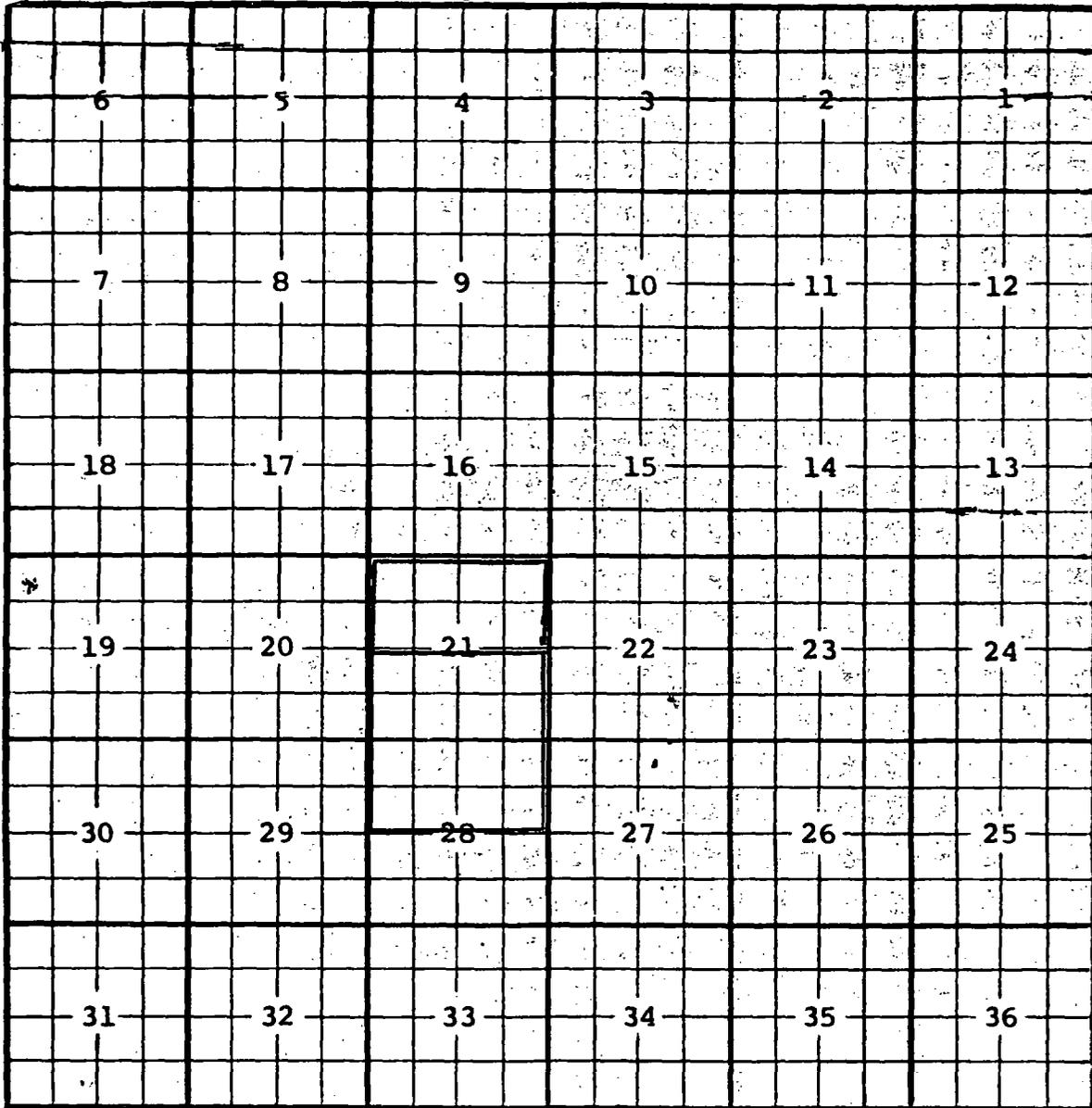
County CHAVES

Pool DIABLO - FUSSELMAN

TOWNSHIP 10 SOUTH

Range 27 EAST

NMPM



DESC: 5/2 SEC. 21, N/2 SEC. 28 (R-9131, 3-2-90)

Ext: N/2 SEC. 21 (A-9241, 7-31-90)

**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. 9854 (Reopened)
Order Nos. R-9131-C
R-5353-K-1**

**IN THE MATTER OF CASE 9854 BEING REOPENED
PURSUANT TO THE PROVISIONS OF DIVISION ORDER
NOS. R-9131-A/R-5353-K, WHICH ORDER RECLASSIFIED
THE DIABLO-FUSSELMAN POOL IN CHAVES COUNTY, NEW
MEXICO AS AN ASSOCIATED POOL WITH SPECIAL RULES
AND REGULATIONS INCLUDING PROVISIONS FOR 80-ACRE
OIL AND 160-ACRE GAS SPACING AND PRORATION UNITS,
DESIGNATED WELL LOCATION REQUIREMENTS, AND
ESTABLISHED A GAS/OIL RATIO (GOR) LIMITATION OF
6,500 CUBIC FEET OF GAS PER BARREL OF OIL.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 2, 1992, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 15th day of April, 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) By Order No. R-9131 issued in Case No. 9854 on March 2, 1990, the Division, upon application of Stevens Operating Corporation, created, defined and promulgated 90-day Temporary Special Rules and Regulations for the Diablo-Fusselman Pool located in portions of Sections 21 and 28, Township 10 South, Range 27 East, NMPM, Chaves County, New Mexico, including a provision for 160-acre oil spacing, designated well location requirements, an oil allowable of 382 barrels of oil per day, and a limiting gas-oil ratio (GOR) of 6,500 cubic feet of gas per barrel of oil.

CASE NO. 9854 (Reopened)
Order No. R-9131-C
R-5353-K-1

Page -2-

(3) By Order No. R-9131-A/R-5353-K issued in reopened Case No. 9854 on August 3, 1990, the Division reclassified the subject pool as an associated pool, and promulgated one year Temporary Special Rules and Regulations for the Diablo-Fusselman Associated Pool, including provisions for 80-acre oil and 160-acre gas spacing and proration units, designated well location requirements, an oil allowable of 222 barrels of oil per day, and a limiting gas-oil ratio (GOR) of 6,500 cubic feet of gas per barrel of oil.

(4) Pursuant to the provisions of said Order Nos. R-9131-A/R-5353-K, this case was reopened to allow the operators in the subject pool the opportunity to appear and show cause why the Temporary Special Rules and Regulations for the Diablo-Fusselman Associated Pool should not be rescinded and the pool be developed on statewide 40-acre oil spacing units.

(5) Yates Petroleum Corporation (Yates), one of only two operators in the subject pool, appeared at the hearing and presented evidence and testimony in support of continuation of the temporary special rules and regulations.

(6) According to evidence presented, there are currently six producing oil wells and three producing gas wells in the subject pool of which Yates operates four oil wells and two gas wells. The remaining wells in the pool are operated by Hanson Operating Company, Inc.

(7) Yates testified that it is unlikely that any additional wells will be drilled in the subject pool.

(8) Hanson Operating Company, Inc. did not appear and present evidence and testimony in this case.

(9) The evidence and testimony presented in this case indicate that the remaining oil and gas reserves in the Diablo-Fusselman Associated Pool can best be produced and depleted under the current temporary special rules and regulations.

(10) The special rules and regulations promulgated by Order Nos. R-9131-A/R-5353-K have afforded and will afford the owner of each property in the pool the opportunity to produce his just and equitable share of the oil and gas in the pool.

CASE NO. 9854 (Reopened)

Order No. R-9131-C

R-5353-K-1

Page -3-

(11) In order to prevent the economic loss caused by the drilling of an excessive number of wells, to avoid the augmentation of risk arising from the drilling of an excessive number of wells, to prevent reduced recovery which might result from the drilling of too few wells and to otherwise prevent waste and protect correlative rights, Order Nos. R-9131-A/R-5353-K should be continued in full force and effect until further order of the Division.

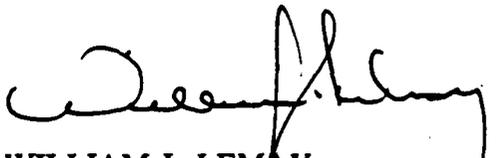
IT IS THEREFORE ORDERED THAT:

(1) The Special Rules and Regulations governing the Diablo-Fusselman Associated Pool, Chaves County, New Mexico, promulgated by Division Order No. R-9131-A/R-5353-K are hereby continued in full force and effect until further order of the Division.

(2) 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



WILLIAM J. LEMAY
Director

S E A L

