



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

— MEMORANDUM — EXAMINER'S RULE INTERPRETATION

TO: All Jalmat and Eumont Oil and Gas Operators.

FROM: Michael E. Stogner, Chief Hearing Examiner/Engineer (OCD). *MS.*

SUBJECT: The restoration of previously authorized/established non-standard gas spacing units within the Jalmat (79240) and Eumont (76480) Gas Pools under the provisions of Rules 4 (C) of the "*Special Pool Rules for the Jalmat Gas Pool*" and "*Special Pool Rules for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 4, 2001.

DATE: June 8, 2004.

Development of the Eumont and Jalmat Gas Pools commenced in the early 1950's under a gas prorationing system based on acreage and a considerable number of non-standard gas spacing and proration units were routinely approved under special rules governing both pools applicable at the time.

By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Jalmat and Eumont Gas Pools and promulgated special pool rules that provide for: (i) oil development on standard 40-acre oil spacing units [Rule 2 (B)] and gas development on standard 640-acre gas spacing units [Rule 2 (A)]; (ii) gas development on a well density based on one well per 160 acres [Rules 3 (C) and (D)]; (iii) gas well locations to be no closer than 660 feet to any outer boundary of the assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line [Rule (A) (2)]; and (iv) administrative exceptions, in most cases, to these rules (Rule 4) with notification, including the formation of non-standard gas spacing units [Rule 4 (C) (1)]. The special pool rules prohibit: (i) the simultaneous dedication of acreage committed to a gas well in either the Jalmat or Eumont Gas Pool to an oil well [Rule 2 (C)]; and (ii) a gas well density greater than one Jalmat or Eumont well per quarter-quarter section [Rule 3 (D)]. The special pool rules further provided that all existing rule exceptions, whether granted administratively or through hearing, in effect on the issuance date of Division Order No. R-8170-P, be "grandfathered" [Rule 6 (B)].

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Earlier this year, the Division restored two previously authorized 160-acre non-standard spacing units in these pools that had not produced for some time and/or where the previous dedicated well or wells had been abandoned [see AMENDED Administrative Order NSP-1435, dated March 30, 2004, and Administrative Order NSP-1871 (Administrative Reinstatement of Division Order No. R-479) dated April 12, 2004]. In each case only one well was to be dedicated to the restored unit, which complied with the well density provisions in both pools and each well location was standard. Both restored units were at the request of the operator in the form of abbreviated applications and were issued Administrative Orders; however, notification under special Rule 4 (D) was not provided nor asked for by the Division's examiner.

After reassessing its practice for processing such request and the spirit in which the Division Order No. R-8170-P was issued, the Division has determined that in the best interest of conservation and to assure that correlative rights are protected, the same procedure required under special Rule 4 (C) in establishing non-standard spacing units within the Jalmat and Eumont Gas Pools must be followed when restoring previously established spacing and proration units that are no longer active.



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

NSP-1435

BILL RICHARDSON
Governor

March 30, 2004

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

Chevron U.S.A., Inc.
15 Smith Road
Midland, Texas 79705

Attention: J. Denise Pinkerton
leakejd@chevrontexaco.com

AMENDED Administrative Order NSP-1435

Dear Ms. Pinkerton:

Reference is made to the following: (i) your original application filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on September 29, 2003 for "Simultaneous Dedication" (*administrative application reference No. pMES0-327256013*); (ii) my letter dated November 4, 2003 denying this application; (iii) your re-submittal of this application (*administrative application reference No. pMES0-406236147*) on February 23, 2004; (iv) our various e-mail correspondence concerning this matter on March 25, 29, and 30, 2004; (v) my voice mail message to you on Monday afternoon, March 29, 2004; (vi) your voice-mail reply on Tuesday morning, March 30, 2004; and (vii) the Division's records in Santa Fe: all concerning Chevron U.S.A., Inc.'s ("Chevron") request to amend Division Administrative Order NSP-1435, dated September 21, 1984, which order authorized the creation of a non-standard 160-acre gas spacing unit in the Eumont Gas Pool (76480) comprising the SW/4 of Section 9, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico.

By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Eumont Gas Pool and promulgated "*Special Pool Rules for the Eumont Gas Pool*," which provides for: (i) 640-acre standard gas spacing units; (ii) gas development on a well density based on one well per 160 acres; (iii) gas well locations to be no closer than 660 feet to any outer boundary of its assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line; and (iv) administrative exceptions, in most cases, to these rules. I would suggest that the applicable staff at Chevron read and understand these rules and procedures prior to completing another well in either the Jalmat or Eumont Gas Pool. Failure to follow these rules and procedures when applying to the Santa Fe office of the Division for well location or density exceptions could disqualify Chevron from seeking such administrative relief, thereby making it necessary for Chevron to file for hearing all such applications.

It is the Division's understanding at this time that the two Eumont gas wells currently dedicated to this 160-acre unit, Chevron's: (i) L. Van Eaton Well No. 1 (API No. 30-025-06041), located at a standard Eumont gas well location 1980 feet from the South line and 660 feet from the West line (Unit L) of Section 9, ceased producing from the Eumont Gas Pool in February, 2000 and was plugged and abandoned on February 26, 2004; and (ii) L. Van Eaton Well No. 2 (API No. 30-025-06042), located at a standard Eumont gas well location 660 feet from the South and West lines (Unit M) of Section 9, last produced from the Eumont Gas Pool in October, 2002 and that Chevron intends to plug and abandon this well in the very near future.

It is further understood that Chevron has re-completed its L. Van Eaton Well No. 15 (API No. 30-025-32880), located at a standard Eumont gas well location 800 feet from the south line and 1980 feet from the West line (Unit N) of Section 9, from the Wier-Blinebry Pool (63780) into the Eumont Gas Pool but has not placed this well in production.

Chevron is hereby authorized to dedicate its above-described L. Van Eaton Well No. 15 to the existing 160-acre gas spacing unit approved by Division Administrative Order NSP-1435. Division Administrative Order NSP-1435 is hereby amended to reflect this well change; furthermore, all provisions applicable to the subject 160-acre non-standard gas spacing unit in Division Administrative Orders NSP-1435, not in conflict with this order, shall remain in full force and affect until further notice.

Jurisdiction of this matter shall be further retained for the entry of any such subsequent orders, as the Division may deem necessary.

Sincerely,



Michael E. Stogner
Engineer/Hearing Officer

MES/ms

cc: New Mexico Oil Conservation Division – Hobbs
William F. Carr, Legal Counsel for Chevron U.S.A., Inc. - Santa Fe
File: NSP-1435