

OIL CONSERVATION DIVISION

ENGINEERING BUREAU MEMORANDUM

TO: William J. LeMay, Director
Frank Chaves, Supervisor - OCD District III
David R. Catanach, Engineer

FROM: Michael E. Stogner, Engineer

SUBJECT: Division Administrative Order NSP-1735

DATE: November 16, 1995

By Division Administrative Order NSP-1735, dated August 8, 1995 (see copy attached), an existing standard 321.61-acre gas spacing and proration unit ("GPU") in the Basin-Dakota Pool comprising Lots 1 and 2, the NE/4, and the E/2 NW/4 (N/2 equivalent) of Section 18, Township 24 North, Range 5 West, N.M.P.M., Rio Arriba County, New Mexico, was divided into two separate 160-acre, more or less, non-standard gas spacing and proration units with:

- (1) the rededication of acreage for the existing Floyd Oil Company operated Apache Federal Well No. 14 (API No. 30-025-05514), located at a standard gas well location 990 feet from the North and West lines (Lot 1/Unit D) of said Section 18, from the aforementioned 321.61-acre GPU changed to a non-standard 161.61-acre unit comprising the Lots 1 and 2 and the E/2 NW/4 (NW/4 equivalent) of said Section 18; and,
- (2) the remaining 160 acres comprising the NE/4 of said Section 18 to be dedicated to a well to be drilled at a standard gas well location thereon and operated by Elm Ridge Resources, Inc.

Elm Ridge Resources, Inc. filed its application for administrative review on July 3, 1995 pursuant to the requirements set forth by Rule 2(d) of the "General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Basin-Dakota Pool", as promulgated by Division Order No. R-8170-H, as amended. All interested parties were contacted and none objected, in fact several signed waivers of support were submitted.

I understand that Mr. Chaves has some reservations about this order and has raised some very valid concerns. However:

- (1) As I understood it at the time, the Division Memorandum dated April 17, 1987 or infamous "Vic Lyon Decree", referenced by Mr. Chaves in his earliest correspondence concerning this matter, was declared invalid. For a memorandum was not the proper format for which an Order issued by the Division after notice and hearing is to be rescinded.
- (2) Subsequent to that time, the Division "unofficially" discouraged the splitting of existing proration units in the Blanco-Mesaverde and Basin-Dakota Pools even though: both pools are prorated; an appropriate acreage factor can

Engineering Bureau Memorandum

Michael E. Stogner

November 16, 1995

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be assigned to both GPU's; and, there are rules in place that allow for operators to seek such exceptions.

- (3) In this instance where:
- (a) it involved an existing GPU;
 - (b) it was to be an even 160/160, more or less, split, not an 80/240, 40/280, 120/200 or anything else;
 - (c) both operators agreed;
 - (d) no objections were filed;
 - (e) a more relaxed attitude toward gas prorationing exists now; and,
 - (f) it is my impression that the Johnson/Salisbury administration wants to see more things done administratively and at a lower level, if at all possible.

As per Mr. Chaves' comments in his "E-mail" dated October 20, 1995 the formation of non-standard spacing and proration units is not taken lightly. There are many, many variables to consider when an application comes in: is it a gas or oil pool; if its gas is it in a prorated pool (see Division Memorandums dated July 27, 1988 and August 3, 1990); are there special pool rules, does the rules provide for infill drilling, is there a limit as to the number of wells on a spacing unit (most 80-acre pools provide for one well in each quarter-quarter section, Rule 104.C(1)(a) allows up to four wells on a standard 40-acre oil proration unit, if the pool rules are moot on this subject what is the current development in the pool); was the compulsory pooling option fully explored; is the pool depleted, what is the reasoning for splitting the existing GPU, what are the ownership differences, are the royalty interests different between the acreage, could waste occur if NSP's are or are not formed, is there a possibility of draining offsetting property, do the NSP's promote drilling without jeopardizing correlative rights, would this action promote the drilling of truly unnecessary wells, etc., etc., etc.

In the Basin-Dakota and Blanco-Mesaverde Pools I would not even consider such an application unless there exist or, in some instances, was there a well and standard GPU involved, is the offsetting wells marginal or non-marginal, were all mineral interests provided notice and given the opportunity to object, and will two wells indeed occupy the appropriate half-section.

Finally, how could we justify not approving the subject Elm Ridge Resources, Inc./Floyd Oil Company request.

cc: File: NSP-1735



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

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

August 8, 1995

Elm Ridge Resources, Inc.
4925 Greensville Avenue - Suite 1305
Dallas, Texas 75206-4021
Attention: Doug Endsley, Geologist

Floyd Oil Company
711 Louisiana - Suite 1740
Houston, Texas 77002
Attention: W. Gregg Atkins

Division Administrative Order NSP-1735

Dear Messrs. Endsley and Atkins:

Reference is made to Elm Ridge Resources, Inc.'s ("Elm Ridge") application dated June 27, 1995, to divide the existing 321.61-acre standard gas spacing and proration unit ("GPU") in the Basin-Dakota Pool comprising Lots 1 and 2, the NE/4, and the E/2 NW/4 (N/2 equivalent) of Section 18, Township 24 North, Range 5 West, N.M.P.M., Rio Arriba County, New Mexico, into two 160-acre, more or less, non-standard gas spacing and proration units.

Said 321.61-acre GPU was established in 1961 for the Gulf Oil Corporation Apache Federal Well No. 14 (API No. 30-025-05514), located at a standard gas well location 990 feet from the North and West lines (Lot 1/Unit D) of said Section 18.

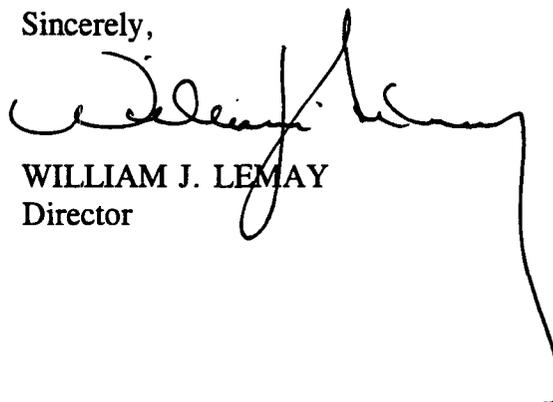
It is our understanding at this time that:

- (1) the acreage dedication for said Apache Federal Well No. 14, now operated by Floyd Oil Company will be changed to a non-standard **161.61-acre unit comprising the Lots 1 and 2 and the E/2 NW/4 (NW/4 equivalent) of said Section 18; and,**

- (2) the remaining **160** acres comprising the NE/4 of said Section 18 is to be dedicated to a well to be drilled at standard gas well location thereon and operated by Elm Ridge Resources, Inc.

By the authority granted me under the provisions of **Rule 2(d)** of the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Basin-Dakota Pool*", as promulgated by Division Order No. R-8170-H, as amended, the two above-described non-standard gas spacing and proration units in the N/2 equivalent of said Section 18 are hereby approved with allowables to be assigned thereto in accordance with said pool rules based upon its respective unit size.

Sincerely,



WILLIAM J. LEMAY
Director

WJL/MES/kv

cc: Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington

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M E M O R A N D U M

TO: OPERATORS IN BASIN-DAKOTA AND BLANCO-MESAVERDE POOLS

FROM: WILLIAM J. LEMAY, DIVISION DIRECTOR *WJL*

SUBJECT: NON-STANDARD PRORATION UNITS

There has been a number of applications for exceptions to Rule 5(a)2(2) of Order No. R-8170 for wells located on 160 acres, more or less, non-standard proration units. At the hearings on such applications showing was made that there is an inequity where two 160-acre proration units, having one well on each unit, are compared to a 320-acre proration unit having two wells of similar deliverability in the proration unit. The proposed solution to this inequity is to give the wells a full deliverability in the AD factor portion of the allowable.

Such proposed solution has the following disadvantages:

1. It is contrary to the formula adopted by the original spacing order and the order permitting the second well on each proration unit.
2. It creates an inequity between a 160-acre unit with one well as compared to a 320-acre unit with one well.
3. The proration system would have to be revamped to accommodate the exceptions.
4. The variation of unit sizes is such a common phenomenon that attempting to adjust for deviations in the manner requested constitutes a reservoir-wide problem which should be addressed in rule changes rather than in exceptions to the rules.

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5. Wide-spread exceptions as are being requested amount to changing the proration formula by subterfuge to a straight deliverability factor.

The inequities which are apparent in the cases brought before the Division should be addressed by changes in the proration formula or rules implementing them.

All currently pending applications for such exceptions will be denied. All orders approving such exceptions which have been entered but not implemented will be rescinded. All orders which have been implemented will be suspended immediately.

Any party considered aggrieved by this action is invited to file application for a change in the proration formula for the two pools involved, or either of them, or in the rules implementing the formulas together with a plan and analysis showing that a different formula or procedure will be more equitable than the existing rules.

April 17, 1987
fd/

William Lemay

From: Frank Chavez
To: William Lemay; Mike Stogner
Subject: NSP-1735
Date: Friday, October 20, 1995 11:30AM
Priority: High

Meet to discuss

We still have not fully processed the APD for Elm Ridge Resources for a 160 acre Basin Dakota well based on NSP-1735. Has this issue been resolved? If it is resolved in favor of the NSP do I go back and reinstate the previous orders? If an administrative order can allow an exception to pool spacing rules because the interest owners agree to it, can an operator get an administrative order for a 40 acre (or whatever) dedication in an 80 or 160 or 320 or 640 pool under the same circumstances?

Basin - NSP.5

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

GARREY CARRUTHERS
GOVERNOR

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MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: AUGUST 3, 1990

On July 27, 1988, we sent a memorandum to all operators to explain the Division's procedures for ensuring compliance with the above rule in handling applications for additional wells on existing proration units. The procedures are primarily applicable in unprorated gas pools.

The final paragraph of the July 27 memo reads as follows:

"Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced."

Additional explanation of the intent of the above paragraph is set out below:

Application to produce both wells continuously and concurrently will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

Requests to produce the wells alternately (one well shut-in while the other produces) may be submitted for administrative handling. The request should set out the length of the producing and shut-in cycles for each well (a one month minimum is suggested), the proposed method for ensuring compliance with the proposed producing and shut-in schedules, and the reasons for the request. Notice should be provided to offset operators in the usual manner, allowing a 20-day waiting period. The application should be sent to Santa Fe with a copy to the appropriate District office.

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



GARREY CARRUTHERS
GOVERNOR

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MEMORANDUM

TO: ALL OPERATORS

FROM: WILLIAM J. LEMAY, DIRECTOR *WJL*

SUBJECT: RULE 104 C II OF THE GENERAL RULES AND REGULATIONS

DATE: JULY 27, 1988

There has been some confusion about interpretation of the subject rule. In each paragraph of sections (a), (b) and (c) the rule states:

"Unless otherwise provided in special pool rules, each development well for a defined gas pool shall be located on a tract..."

My interpretation of this sentence is that each well is to be located on its own individual specified unit and an additional well is not authorized simply by meeting the set back requirements of the rule.

This interpretation is necessary to prevent waste from the drilling of unnecessary wells and to protect correlative rights of all parties in the pool. Since the prorated pools have special pool rules the subject rules have greater impact on unprorated gas. Unprorated does not mean unregulated. Allowables are not issued in unprorated pools and the only method available to protect correlative rights is the control of well density and locations. Added well density required because of special geological situations can be addressed by special pool rules after notice and hearing.

Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced.

dr/