

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. 13252
ORDERS NO. R-6483-C
R-8575-C

APPLICATION OF MISSION RESOURCES CORPORATION FOR THREE
INFILL GAS WELLS AND SIMULTANEOUS DEDICATION, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 29, 2004 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 30th day of August 2004, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its **subject** matter.

(2) The applicant, Mission Resources Corporation ("Mission"), seeks an exception to the well density provisions currently governing the Jalmat (Tansill-Yates-Seven Rivers) Gas Pool (79240) within a standard gas spacing unit consisting of all of Section 11, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, for its proposed:

(a) State "A" A/C-2 Well No. 82 to be drilled at a standard infill gas well location 1980 feet from the South and East lines (Unit J) of Section 11;

(b) State "A" A/C-2 Well No. 83 to be drilled at a standard infill gas well location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 11; and

(c) State "A" A/C-2 Well No. 84 to be drilled at a standard infill gas well location 660 feet from the South line and 1886 feet from the East line (Unit O) of Section 11.

(3) Mission further seeks simultaneous dedication of these three (3) proposed wells and the existing nine (9) wells in Section 11, to the standard gas spacing unit consisting of all of Section 11, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico.

(4) By Division Order No. R-6483, issued in Case No. 7022 and dated October 20, 1980, the Division authorized the simultaneous dedication of the following four wells to a standard 640-acre gas spacing and proration unit ("GPU") for the **Jalmat** Gas Pool comprising all of Section 11:

(a) State "A" A/C-2 Well No. 14 (API No. 30-025-08873), located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 11;

(b) State "A" A/C-2 Well No. 36 (API No. 30-025-08878), located 660 feet from the South and West lines (Unit M) of Section 11;

(c) State "A" A/C-2 Well No. 42 (API No. 30-025-08879), located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 11; and

(d) State "A" A/C-2 Well No. 62 (API No. 30-025-25542), located at a standard gas well location 1980 feet from the South line and 2310 feet from the West line (Unit K) of Section 11.

(5) By Division Order No. R-8575, issued in Case No. 9275 and dated January 4, 1988, the Division authorized the State "A" A/C-2 Well No. 73 (API No. 30-025-30035), located at an unorthodox gas well location 990 feet from the South line and 660 feet from the East line (Unit P) of Section 11 to be included in the GPU.

(6) The Division issued administrative order NSL-3089, dated January 17, 1992, authorizing the State "A" A/C-2 Well No. 15 (API No. 30-025-08874), located at an unorthodox gas well location 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 11, to be included in the GPU.

(7) The Division issued administrative order NSL-3089-A (SD), dated September 16, 1999, authorizing the State "A" A/C-2 Well No. 75 (API No. 30-025-34791), located at an unorthodox gas well location 2040 feet from the South line and 660 feet from the West line (Unit L) of Section 11, to be included in the GPU.

(8) By Division Order No R-6483-B, issued in Case No. 12625 and dated July 27, 2001, the Division authorized the State "A" A/C-2 Well No. 79 (API No. 30-025-35651), located at standard gas well location 660 feet from the North line and 660 feet from the East line (Unit A) of Section 11 to be included in the GPU.

(9) By Division Order No. R-8575-B, issued in Case No. 12625 and dated July 27, 2001, the Division authorized the State "A" A/C-2 Well No. 80 (API No. 30-025-35567), located at standard gas well location 1980 feet from the North line and 1980 feet from the West line (Unit F) of Section 11 to be included in the GPU.

(10) On December 14, 1989 the Division issued a combined order in Case No. 9774 (Orders No. R-6483-A/R-8575-A), that affected the metering and testing of gas production from this 640-acre unit.

(11) Gas prorationing in the Jalmat Gas Pool was terminated on December 14, 2001, in Case No. 12563 by Division Order No. R-8170-P, and special pool rules were established.

Portions of those special pool rules, applicable to this case are as follows:

SPECIAL POOL RULES
FOR THE JALMAT GAS POOL

RULE 1. DEFINITIONS:

A GAS WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

RULE 2. ACREAGE ASSIGNMENT:

(A) *A standard gas spacing unit in the Jalmat Gas Pool shall be 640 acres, more or less, and shall comprise a single governmental section.*

(B) A standard oil spacing and proration unit in the Jalmat Gas Pool shall be 40 acres, more or less, and shall comprise a single governmental quarter-quarter section or lot.

(C) Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

RULE 3. WELL DENSITY AND LOCATION:

(C) For any gas spacing unit, either standard or otherwise, the number of wells allowed shall be limited to no more than one well per 160 acres. For either a standard or non-standard 640-acre unit, a maximum of four wells shall be allowed, provided that no more than one well shall be allowed to occupy any one of the four quarter sections. For a non-standard 480, 320 or 160-acre unit, a maximum of three wells, two wells, or one well, respectively, shall be allowed, provided that no more than one well shall be allowed to occupy each quarter section that comprises the unit.

(D) In no event shall any Jalmat gas spacing unit be allowed more than one well per quarter-quarter section.

RULE 4. ADMINISTRATIVE EXCEPTIONS:

(B) The Division Director may grant an administrative exception to the gas well density provisions of Rule 3(C) above, or may administratively approve the formation of a non-standard gas spacing unit that will result in a well density of more than one well per 160 acres, so long as the operator presents sufficient engineering, geologic, reservoir drainage and other applicable evidence that demonstrates:

(1) the proposed well is necessary (a) to effectively and efficiently drain a 160-acre quarter section that cannot be adequately drained by the existing well or wells, or (b) to adequately protect the subject unit from offsetting drainage, or (c) to prevent waste by utilizing an existing or previously abandoned wellbore, or (d) to recover additional reserves that would otherwise not be recovered from the reservoir;

(2) *the proposed well will not violate correlative rights; and*

(3) *the applicant has obtained consent of or given notice to all operators of any unit or units adjacent to the gas spacing unit requiring the well density exception and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).*

(12) The rules and procedures currently governing the Jalmat Gas Pool and pertinent to this case include but are not necessarily limited to:

(a) the "*Special Rules and Regulations for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170-P, as amended;

(b) Division Rules 104.D(1 and 3); and

(c) the amended Stipulated Declaratory Judgment of the First Judicial District Court in Santa Fe County, New Mexico issued on July 11, 2001 in Hartman vs. Oil Conservation Division, Cause No. D-0101-CV-9902927 ("Stipulated Declaratory Judgment").

(13) The amended Stipulated Declaratory Judgment provides in part that:

(a) the approval of drilling an additional well or wells on a spacing unit ("infill drilling") in the Eumont and Jalmat Gas Pools shall be administered in a manner that affords due process to affected parties, including notice, an opportunity to object and in the case of objection a right to public hearing in accordance with Division Rule 104; and

(b) in accordance with those principles it is provided that in the event an operator files an application with the Division for approval of an additional well or wells in the Eumont Gas Pool or the Jalmat Gas Pool, which if allowed would result in spacing of less than 160 acres per well on a proration unit, the infill well or wells may be permitted only after notice pursuant to Division Rule 1207.A(2) and opportunity for hearing for affected persons. Once notice is provided, the Division may process the application in a manner consistent with [this judgment], and otherwise consistent with the Division's practice, its Rules and Regulations and the Oil and Gas Act.

(14) It appears that Mission has provided notice of the application in this case to all offsetting Division-designated operators in adjoining spacing units in accordance with the Special Pool Rules of the Jalmat Gas Pool, the provisions of the amended Stipulated Declaratory Judgment, and Division Rule 1207.A (2).

(15) No affected party or offsetting operator **and/or** interest owner appeared at the hearing, or otherwise opposed this application.

(16) Mission presented testimony from regulatory, geological, and engineering personnel as follows.

(a) Mission became a designated operator in the State of New Mexico on February 1, 2004, after being absent from the state for several years. Mission obtained properties from Raptor Resources, Inc. within this geographic area.

(b) If this application is approved and these three (3) wells successfully drilled and completed, there will be twelve quarter-quarters within this 640-acre spacing unit with producing wells and four quarter-quarters with no producing wells. None of the quarter-quarters within this spacing unit will have more than one producing Jalmat gas well.

(c) The Jalmat Gas Pool produces mainly from discontinuous sands in the Yates and Seven Rivers formations. The sands are partially radioactive, must be fractured to produce, and sometimes produce for longer than 40 years. Average recovery per well is less than 0.5 bcf of gas. Economics of development are aided by the existence of natural gas liquids. The advancing completion technologies of perforating and fracturing are aiding development in this pool.

(d) There is substantial geologic discontinuity in the Jalmat Gas Pool underlying Section 11 on which these proposed infill wells (State "A" A/C-2 Wells No. 82, 83, and 84) are to be drilled.

(e) Development within this standard 640-acre unit with only one Jalmat gas well per 160-acre tract (NE/4, NW/4, SW/4, and SE/4 of Section 11), would miss sands containing producible reserves and leave reserves in the ground, thereby causing waste.

(17) The drilling of Mission's State "A" A/C-2 Wells No. 82, 83, and 84, will result in the recovery of hydrocarbons that will otherwise not be recovered, thereby preventing waste and protecting correlative rights.

(18) The application of Mission for an exception to the well density requirements of the Special Pool Rules and Regulations for the Jalmat Gas Pool should be approved.

(19) To efficiently produce the remaining recoverable reserves from the Jalmat Gas Pool under this standard 640-acre gas spacing and proration unit, all Jalmat gas production from the State "A" A/C-2 Wells No. 14, 15, 36, 42, 62, 73, 75, 79, 80, 82, 83, and 84 should be simultaneously dedicated to this gas spacing unit and the application of Mission for simultaneous dedication should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Mission Resources Corporation ("Mission") for an exception to the well density requirements of the Special Pool Rules and Regulations for the Jalmat Gas Pool, as promulgated by Division Order No. R-8170-P, as amended, for the following three (3) wells to be drilled at standard infill gas locations in Section 11, Township 22 South, Range 36 East, NMPM, Lea County, New Mexico, within an existing standard 640-acre gas spacing unit in the Jalmat Gas Pool comprising all of Section 11, is hereby granted.

(a) The State "A" A/C-2 Well No. 82 to be drilled at a standard infill gas well location 1980 feet from the South and East lines (Unit J) of Section 11.

(b) The State "A" A/C-2 Well No. 83 to be drilled at a standard infill gas well location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 11.

(c) The State "A" A/C-2 Well No. 84 to be drilled at a standard infill gas well location 660 feet from the South line and 1886 feet from the East line (Unit O) of Section 11.

(2) Mission is further authorized to simultaneously dedicate the three wells listed above in paragraph 1 and the nine (9) wells listed below, to this standard 640-acre spacing unit consisting of all of Section 11:

(a) State "A" A/C-2 Well No. 14 (API No. 30-025-08873), located 660 feet from the North and 1980 feet from the East line (Unit B) of Section 11;

(b) State "A" A/C-2 Well No. 15 (API No. 30-025-08874), located 660 feet from the North line and 1980 feet from the West line (Unit C) of Section 11;

(c) State "A" A/C-2 Well No. 36 (API No. 30-025-08878), located 660 feet from the South and West lines (Unit M) of Section 11;

(d) State "A" A/C-2 Well No. 42 (API No. 30-025-08879), located 1980 feet from the North line and 660 feet from the East line (Unit H) of Section 11;

(e) State "A" A/C-2 Well No. 62 (API No. 30-025-25542), located 1980 feet from the South line and 2310 feet from the West line (Unit K) of Section 11;

(f) State "A" A/C-2 Well No. 73 (API No. 30-025-30035), located 990 feet from the South line and 660 feet from the East line (Unit P) of Section 11;

(g) State "A" A/C-2 Well No. 75 (API No. 30-025-34791), located 2040 feet from the South line and 660 feet from the West line (Unit L) of Section 11;

(h) State "A" A/C-2 Well No. 79 (API No. 30-025-35651), located 660 feet from the North and west lines (Unit D) of Section 11; and

(i) State "A" A/C-2 Well No. 80 (API No. 30-025-35567), located 1980 feet from the North and West lines (Unit F) of said Section 11.

(3) All provisions applicable to the subject 640-acre spacing unit in Division Orders No. R-6483, R-6483-B, R-8575, and R-8575-B and Division Administrative Orders NSL-3089 and NSL-3089-A(SD), not in conflict with this order, shall remain in full force and effect until further notice.

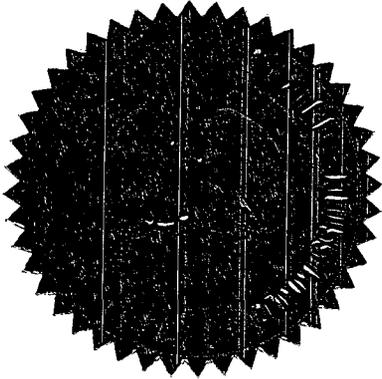
(4) In addition, all provisions applicable to the subject 640-acre spacing unit in Division Orders No. R-6483-A and R-8575-A, not in conflict with this order, shall remain in full force and effect until further notice.

(5) All provisions of the Special Pool Rules for the Jalmat Gas Pool, including but not limited to Rule 5 "Well Testing", that are not in conflict with this order, shall remain in full force and effect until further notice.

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

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Handwritten signature of Mark E. Fesmire, P.E.

MARK E. FESMIRE, P.E.,
Director