

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. 13538
ORDER NO. R-12427**

**APPLICATION OF READ AND STEVENS, INC. FOR A NON-STANDARD OIL
SPACING UNIT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 11, 2005, at Santa Fe, New Mexico, before Examiner William V. Jones and again on August 25, 2005, before Examiner Richard I. Ezeanyim.

NOW, on this 26th day of September, 2005, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

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

(2) Read and Stevens, Inc. ("Read and Stevens" or the "applicant") seeks approval of a non-standard oil spacing and proration unit for wildcat San Andres oil production to comprise 53.64 acres, more or less, combining Lot 4 (consisting of 27.28 acres) and the eastern most 26.36 acres of the SE/4 SW/4 (Unit N) of irregular Section 17, Township 19 South, Range 39 East, NMPM, Lea County, New Mexico. This unit is to be dedicated to the applicant's proposed Brumley "17" Federal Com. Well No. 1 to be drilled at a standard oil well location 330 feet from the South line and 485 feet from the East line (Lot 4/Unit O) of irregular Section 17.

(3) Irregular Section 17 is truncated on the east side by the New Mexico and Texas (Gaines County) state line. It consists of a complete western half of a normal section and, on the eastern side, of Lots 1, 2, 3, and 4, which are federal minerals and are numbered consecutively from the north to the south. Each of these four lots is approximately 26 or 27 acres in size. Lot 4 (27.28 acres) consists of the S/2 SE/4 of Section 17.

(4) Rule 104 contains statewide well spacing and acreage requirements. The acreage requirements for oil wells are specified in Rule 104 as follows:

19.15.3.104 WELLSPACING AND LOCATION:

B. Oil Well Acreage And Well Location Requirements

(1) *Any wildcat well that is projected to be drilled as an oil well to a formation and in an area that in the opinion of the division may reasonably be presumed to be productive of oil rather than gas and each development well for a defined oil pool, unless otherwise provided in special pool orders, shall be located on a spacing unit consisting of approximately 40 contiguous surface acres substantially in the form of a square which is a legal subdivision of the U.S. public land surveys, which is a governmental quarter-quarter section or lot, and shall be located no closer than 330 feet to any boundary of such unit. Only those 40-acre spacing units committed to active secondary recovery projects shall be permitted more than four wells.*

(5) On June 13, 2005, the applicant applied administratively for approval of eight (8) non-standard spacing and proration units within Section 17 (application pMESO-520152307). The Division received a letter of objection from Ms. Mary Brady on June 29, 2005. In addition, the proposed non-standard oil spacing units do not lie wholly within a single quarter section [see Division Rule 104.D(2)(b)] and sever legal quarter-quarter sections. For those two reasons, the administrative application was denied. The applicant then filed an application for Division hearing seeking approval of a single spacing unit to be located in the southeastern portion of Section 17.

(6) On August 8, 2005, the Division received a letter of objection from the Bank One Trust Company as Trustee of the Avis K. Miller Trust.

(7) The case was heard on August 11, 2004, then continued to the August 28th hearing date, so the applicant could provide the affidavit of newspaper publication. No parties other than the applicant appeared at these hearings. Neither of the two parties appeared who had submitted letters of objection.

(8) Ms. Mary Brady, in her letter, listed herself as a mineral interest owner in the E/2 of Section 18, immediately to the west of Section 17. She stated that she needed more information about this project to alleviate concerns.

(9) The Bank One Trust Company's letter listed the Avis K. Miller Trust as owning minerals in the E/2 of Section 18, immediately to the west of Section 17, and objected based on lack of official notice.

(10) The applicant presented testimony at the August 11, 2005 hearing as follows:

(a) Due to the ownership within the Section 17 and the existence of the four small lots on the eastern side of the section, the applicant is proposing to divide the section into eight equally sized spacing units and obtain communitization agreements where needed.

(b) The proposed division of lands within Section 17 will allow for future placement of wells to equalize and optimize drainage and to protect correlative rights.

(c) Federal Lots 1 through 4 were leased to DOH Oil Company, who assigned the leases to JTD Resources. JTD Resources is a 50 percent partner with the applicant.

(d) The first proposed spacing unit, and the subject of this case, is the unit to be located in the southeastern portion of Section 17. This well location was chosen to drill first because it may lie between a San Andres formation pinchout to the west and an oil water contact to the east. The nearest analogous production is in the Foster field to the north and east, which has been sparsely drilled. There is concern that the San Andres reservoir may not exist and if it does exist, it may be of low productivity.

(e) In the administrative application to approve the eight non-standard spacing units, notice was sent to parties within and to parties surrounding Section 17. In this hearing to authorize the non-standard spacing unit in the southeastern portion of Section 17, all parties within Section 17 were noticed. The two objecting parties have acreage in the E/2 of Section 18 and, according to the notice rules, were not required to receive individual notice of this application. However, if this application is approved, a precedent will be set upon which additional spacing and proration units within Section 17, if needed, may be based.

(f) The approval of slightly larger spacing and proration units will also approve a larger unit allowable. However, the standard well location setback from the unit boundary will remain 330 feet and the wells are not expected to be top allowable wells, so offset drainage will not be more likely to occur. Offsetting proration units in the eastern half of Section 18 should not be adversely affected by this application.

(11) This attempt to obtain production from the San Andres in this area is very risky. Division records indicate the proposed well will be the first well drilled to any depth in Section 17. Section 18, located to the west, had only one well drilled and that well did not penetrate the San Andres formation.

(12) The applicant's proposed method of dividing Section 17 into equally sized spacing and proration units is reasonable and prudent. It will prevent waste and protect correlative rights.

(13) Read and Stevens application for a non-standard spacing unit for Wildcat-San Andres oil production spaced on 53.64 acres should be approved.

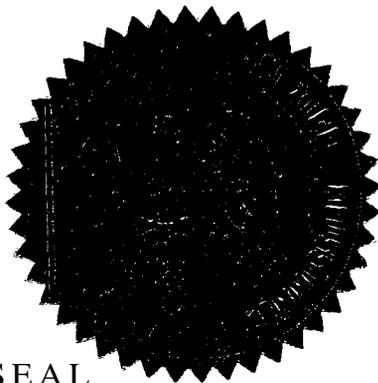
IT IS THEREFORE ORDERED THAT :

(1) Pursuant to the application of Read and Stevens, Inc., a non-standard Wildcat San Andres oil spacing and proration unit is hereby **approved** which shall consist of 53.64 acres, more or less, combining Lot 4 (consisting of 27.28 acres) and the eastern most 26.36 acres of the SE/4 SW/4 (Unit N) of irregular Section 17, Township 19 South, Range 39 East, NMPM, Lea County, New Mexico.

(2) The above-described unit shall be dedicated to Read and Stevens, Inc.'s Brumley "17" Federal Com. Well No. 1, to be drilled at a standard oil well location 330 feet from the South line and 485 feet from the East line (Lot 4/Unit O) of irregular Section 17 and completed in the San Andres formation.

(3) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director