

**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. 13571
ORDER NO. R-12500**

**APPLICATION OF GRUY PETROLEUM MANAGEMENT COMPANY FOR AN
UNORTHODOX GAS WELL LOCATION 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 October 20, 2005, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 3rd day of February, 2006, the Division Director, having considered the testimony, the record, and the recommendation 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, Gruy Petroleum Management Company ("Gruy" or "applicant"), seeks approval to simultaneously dedicate an existing non-standard 160-acre gas spacing unit consisting of the SE/4 SE/4 of Section 10 and the S/2 NE/4 and NE/4 NE/4 of Section 15, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, to the following two wells for production from the Rhodes-Yates Seven Rivers Gas Pool (83810):

(a) Rhodes Federal Unit Well No 153 (API 30-025-31797) located in Unit A at a standard gas well location 990 feet from the North line and 660 feet from the East line of Section 15; and

(b) the proposed Rhodes Federal Unit Well No 159Y (API 30-025-37599) to be located in Unit H at a non-standard gas well location 2,110 feet from the North line and 410 feet from the East line of Section 15.

(3) In addition to simultaneous dedication, the applicant seeks approval of the proposed well at a non-standard location.

(4) No other party entered an appearance or opposed this application.

(5) The Rhodes-Yates Seven Rivers Gas Pool has no special pool rules and is therefore governed solely by statewide rules. Since these wells are located in Lea County and produce gas from a formation younger than the Wolfcamp, the applicable statewide well spacing and location rule is 19.15.3.104 NMAC Section C. (3) shown here:

19.15.3.104 WELL SPACING AND LOCATION:

C. Gas Wells Acreage And Well Location Requirements.

(3) *160-acre spacing applies to any other gas well not covered above [Sections C (1) and (2)]. Such well shall be located in a spacing unit consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. public land surveys and shall be located no closer than 660 feet to any outer boundary of such unit and no closer than 10 feet to any quarter-section or subdivision inner boundary.*

(6) As shown in (5) above, 160-acre gas spacing units are not allowed more than one well. The applicant in this case seeks an exception to Rule 104C. (3) under the procedure set out in Rule 104D. (3).

(7) The applicant presented land, geology, and engineering testimony as follows:

(a) Offsetting operators were notified of applicant's intention to drill and produce an additional well on this spacing unit. Concerning the non-standard location, Ricky Patterson was provided notice as the operator of the affected spacing unit to the East.

(b) The location for the proposed well was chosen after consulting with the United States Bureau of Land Management ("BLM") to avoid an existing sand dune. In order to be located at a standard location, the well would have to be drilled in the middle of a sand dune. The BLM requested the dune be protected from disturbance.

(c) Portions of the Rhodes Federal Unit were once included in the Rhodes gas storage area. Gas storage ceased years ago and all non-native gas has been removed.

(d) The main pay interval is in the Yates formation. The porosity stringers are relatively continuous, but variable in thickness. The well control is extensive and there is very little risk of not encountering the Yates pay intervals.

(e) In 2002, Gruy conducted production tests in this area with two gas wells on one 160-acre spacing unit. The tests showed that significant incremental reserves are recovered after drilling the second well and interference is on the average, less than 0.1 bcf of gas,

(f) The Jalmat is a similar reservoir and has been successfully down spaced to 40-acre well spacing or 4 wells per 160 acres.

(g) Reservoir pressures were initially low in this reservoir and are now extremely low. Correspondingly, gas recovery factors are also low.

(h) The expected incremental reserves due to drilling and producing the Rhodes Federal Unit Well No. 159Y in the same spacing unit with the Rhodes Federal Unit Well No. 153 is 0.4 bcf of gas.

(8) The non-standard spacing unit was approved April 14, 1993, in Case 10683 with Division Order No. R-125009870.

(9) The applicant's evidence presented in this case demonstrates that the simultaneous production of these two wells in this existing 160-acre spacing unit is necessary in order to recover reserves that would otherwise not be recovered.

(10) The non-standard location of the proposed well is necessary because of topography and was not opposed by the affected operator to the East.

(11) Approval of this application will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT :

(1) The application of Gruy Petroleum Management Company to simultaneously dedicate an existing non-standard 160-acre gas spacing unit consisting of the SE/4 SE/4 of Section 10 and the S/2 NE/4 and NE/4 NE/4 of Section 15, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico, to the following two wells for production of gas from the Rhodes-Yates Seven Rivers Gas (83810) Pool is hereby approved:

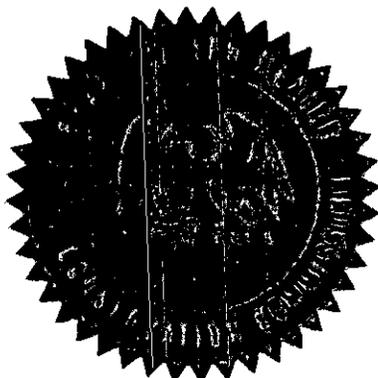
(a) Rhodes Federal Unit Well No 153 (API 30-025-31797) located in Unit A of Section 15 at a standard gas well location 990 feet from the North line and 660 feet from the East line; and

(b) the proposed Rhodes Federal Unit Well No 159Y (API 30-025-37599) to be located in Unit H of Section 15 at a non-standard gas well location 2,110 feet from the North line and 410 feet from the East line.

(2) The applicant is approved to drill the Rhodes Federal Unit Well No. 159Y at a non-standard shallow gas well location in Unit H of Section 15, 2,110 feet from the North line and 410 feet from the East line and produce gas from this well from the Yates formation within the Rhodes-Yates Seven Rivers Gas Pool (83810).

(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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director