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OIL CON. DIV
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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9661 De Novo
Order No. R-8935-A

APPLICATION OF HIXON DEVELOPMENT
COMPANY FOR AN UNORTHODOX OIL WELL
LOCATION AND SIMULTANEOUS DEDICATION,
RIO ARriba COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on July 20, 1989, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 25th day of August, 1989, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Hixon Development Company, seeks approval for an unorthodox oil well location for its Missy Well No. 3 ("No. 3 Well") located 330 feet from the South line and 2310 feet from the West line (Unit N) of Section 35, Township 25 North, Range 3 West, NMPM, West Lindrith Gallup-Dakota Oil Pool, Rio Arriba County, New Mexico, the SW/4 of said Section 35, forming a standard 160-acre proration unit for said pool, to be simultaneously dedicated to the above-described well and to the existing Missy Well No. 2 ("No. 2 Well") located 1650 feet from the South and West lines (Unit K) of said Section 35.

(3) By Order No. R-4314-A, dated January 7, 1988, the Division promulgated Special Rules and Regulations for the West Lindrith Gallup-Dakota Oil Pool, which include, among other things, a rule creating a one-half mile buffer zone extending from the pool boundary to a line one-half mile inside the pool boundary and a provision which requires that all wells located in said buffer zone be located no closer than 790 feet to the

pool boundary nor closer than 130 feet to the interior quarter-quarter section line.

(4) The No. 3 Well, which was drilled during March and April, 1989, is at an unorthodox location in the West Lindrith Gallup-Dakota Pool, being within the buffer zone as described above and therefore subject to the said well location requirement of the West Lindrith Gallup-Dakota Oil Pool.

(5) Mobil Exploration & Producing U.S. Inc. (Mobil), the operator of Section 1, Township 24 North, Range 3 West, NMPM, being the affected offset acreage to the south, appeared at the hearing in opposition to the application and in support of imposing a production penalty against the No. 3 Well.

(6) Examination of the chronology of events leading to the drilling of the No. 3 Well, presented as evidence in this case, reveals that:

- A. On March 29, 1989, Hixon commenced drilling operations at approximately 1:00 p.m. after receiving approval to drill their Missy #3 Well from the Aztec District office of the Oil Conservation Division at a location 330 feet from the South line and 2310 feet from the West line of Section 35, which it thought was a standard Dakota well location.
- B. At approximately 4:20 p.m. on March 30, 1989, the Supervisor of the Aztec district office of the Division informed Hixon that the well location was non-standard.
- C. Hixon assessed alternative actions including drilling ahead with the possible imposition of a penalty on the ability of the No. 3 Well to produce and chose to assume this risk of a penalty by drilling ahead and completing the well.

(7) The evidence indicates that the subject well has been drilled to a total depth of approximately 8,030 feet and is capable of producing from the Dakota formation at a rate of 300 barrels of oil per day.

(8) Top unit allowable for the West Lindrith Gallup-Dakota Oil Pool is 382 barrels of oil per day and Hixon's No. 2 Well is located at a standard location on this spacing unit and will share the allowable with the No. 3 Well.

Case No. 9661 De Novo
Order No. R-8935-A

(9) Mobil has proposed that the allowable for the subject well be established at 80 barrels per day, said allowable determined by multiplying $F1 \times F2$ where:

$F1$ = Top Unit Allowable divided by the number of wells or $382/2$;

$F2$ = Subject well's distance from the south line divided by legal location distance or 330 feet/790 feet.

(10) At the Commission hearing, the evidence established that the Missy No. 3 Well was incapable of sustained production at the 80 barrels a day restriction and would log off and that the Missy No. 2 Well had declined in its capacity to produce at a rate of not more than 180 barrels of oil a day.

(11) The correlative rights of Mobil can be protected by either imposing an effective penalty on the producing rate of the No. 3 Well or by authorizing Mobil to offset the No. 3 Well at a location 330 feet from Hixon's lease line.

(12) Authorizing a well 330 feet from the Hixon lease line in Section 1 would result in an inefficient drainage pattern and would result in the drilling of an unnecessary well thereby causing waste.

(13) While Mobil contended that the penalty for the Missy No. 3 Well should include an "F1" factor which divides by 2 the top allowable for the spacing unit between the Missy No. 2 Well and the Missy No. 3 Well, it is normally provided in multiple well units that the unit allowable may be allocated between the two wells in any proportion when both wells are drilled at standard locations.

(14) Mobil's proposed penalty penalizes Hixon for electing to have a second well on the 160-acre spacing unit because it imposes limitations on the division of allowable between two wells on a proration unit which is contrary to Rule 6 of the pool rules.

(15) An effective penalty can be established by providing a "ratio" penalty against the productive rate of the Missy No. 3 Well which testimony established at 300 barrels of oil per day.

(16) The subject proration unit should be assigned a top unit allowable of 382 barrels of oil per day which may be

Case No. 9661 De Novo
Order No. R-8935-A

produced jointly by the No. 2 and No. 3 Wells; provided however, monthly production from the No. 3 Well should be limited to 125 barrels of oil per day (300 BOPD x 330 feet/790feet) times the number of days in that month.

(17) Approval of the proposed simultaneous dedication and unorthodox well location subject to the reduced allowable as described above will allow the applicant the opportunity to produce its just and equitable share of the production in the subject pool, will prevent the drilling of unnecessary wells, and will protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Hixon Development Company, is hereby given approval for an unorthodox oil well location for its Missy Well No. 3 located 330 feet from the South line and 2310 feet from the West line (Unit N) of Section 35, Township 25 North, Range 3 West, NMPM, West Lindrith Gallup-Dakota Oil Pool, Rio Arriba County, New Mexico; the SW/4 of said Section 35, a standard 160-acre proration unit for said pool, shall be simultaneously dedicated to the above-described well and to the existing Missy Well No. 2 located 1650 feet from the South and West lines (Unit K) of said Section 35.

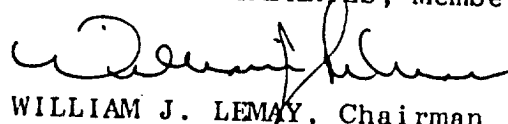
(2) The standard proration unit, the SW/4 of said Section 35, shall receive a top unit allowable of 382 barrels of oil per day; which may be produced jointly by the No. 2 and No. 3 Wells; provided however, monthly production from the No. 3 Well shall be limited to 125 barrels of oil per day times the number of days in that month. Any production in excess of this total shall be made up by reduced production from the No. 3 Well in the immediately following month.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


WILLIAM R. HUMPHRIES, Member


WILLIAM J. LEMAY, Chairman
and Secretary

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