

**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. 10898
Order No. R-10056**

**APPLICATION OF YATES PETROLEUM
CORPORATION FOR POOL CREATION AND
THE PROMULGATION OF SPECIAL POOL
RULES, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 20 and February 3, 1994, at Santa Fe, New Mexico, before Examiners David R. Catanach and Jim Morrow, respectively.

NOW, on this 7th day of February, 1994, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

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

(2) The applicant, Yates Petroleum Corporation, seeks the creation of a new pool for the production of oil from the Wolfcamp formation comprising the NW/4 of Section 34, Township 18 South, Range 25 East, NMPM, Eddy County, New Mexico, and the promulgation of special rules and regulations therefor including a provision for 160-acre spacing and proration units and designated well location requirements.

(3) The evidence presented indicates that during December, 1993, the applicant recompleted its Scout "EH" Well No. 5, located 1980 feet from the North and West lines (Unit F) of Section 34, from the Morrow to the Wolfcamp formation. The evidence further indicates that the Scout "EH" Well No. 5 was completed through perforations from 5,665 feet to 5,678 feet at an initial producing rate of approximately 315 barrels of oil per day and 352 MCF gas per day.

(4) Division records indicate that the subject well and proposed proration unit are located within one mile of the outer boundary of the Boyd-Permo Pennsylvanian Gas Pool and approximately one mile from the outer boundary of the Penasco-Wolfcamp Pool, both located within Section 3, Township 19 South, Range 25 East, NMPM. The Boyd-Permo Pennsylvanian Gas Pool is currently spaced on 320 acres and the Penasco-Wolfcamp Pool is currently spaced on 40 acres.

(5) While the applicant testified that the Federal "AK" Well No. 1, located in Unit I of Section 3 and currently producing from the Penasco-Wolfcamp Pool, is completed in approximately the same correlative interval as the Scout "EH" Well No. 5, it also testified that the lithology and formation characteristics are considerably different.

(6) The geologic and engineering evidence currently available indicates that the aforesaid Scout "EH" Well No. 5 has discovered a separate common source of supply in the Wolfcamp formation.

(7) The applicant proposed that the subject pool be designated the Penasco Draw-Wolfcamp Pool.

(8) The proposed pool name is in compliance with Division nomenclature policy and should be adopted.

(9) A new pool for the production of oil from the Wolfcamp formation should be created and designated the Penasco Draw-Wolfcamp Pool. The vertical limits of the Penasco Draw-Wolfcamp Pool should comprise the Wolfcamp formation, and the horizontal limits should initially comprise the NW/4 of Section 34, Township 18 South, Range 25 East, NMPM, Eddy County, New Mexico.

(10) The preliminary engineering evidence indicates that the Scout "EH" Well No. 5 should be capable of draining an area of approximately 119 acres.

(11) The applicant requested the promulgation of permanent rules and regulations for the Penasco Draw-Wolfcamp Pool.

(12) The engineering evidence available at the current time does not conclusively demonstrate that the subject pool should be permanently spaced on 160 acres.

(13) No offset operator and/or interest owner appeared at the hearing in opposition to Yates' application.

(14) In order to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 160-acre spacing units should be promulgated for the Penasco Draw-Wolfcamp Pool.

(15) The temporary special rules and regulations should provide for designated well locations such that a well cannot be located closer than 660 feet from the outer boundary of the proration unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary in order to assure orderly development of the pool and protect correlative rights.

(16) Temporary Special Rules and Regulations for the Penasco Draw-Wolfcamp Pool should be established for a period of eighteen months in order to allow the operators in the subject pool the opportunity to gather sufficient reservoir information to show that a 160-acre unit in the area can be efficiently and economically drained and developed by one well.

(17) This case should be reopened at an examiner hearing in July, 1995, at which time the operators in the subject pool should be prepared to appear and show cause why the Temporary Special Rules and Regulations for the Penasco Draw-Wolfcamp Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Yates Petroleum Corporation, a new pool in Eddy County, New Mexico, classified as an oil pool for Wolfcamp production is hereby created and designated the Penasco Draw-Wolfcamp Pool, with vertical limits comprising the Wolfcamp formation, and the horizontal limits comprising the NW/4 of Section 34, Township 18 South, Range 25 East, NMPM.

(2) Temporary Special Rules and Regulations for the Penasco Draw-Wolfcamp Pool are hereby promulgated as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
PENASCO DRAW-WOLFCAMP POOL**

RULE 1. Each well completed in or recompleted in the Penasco Draw-Wolfcamp Pool or in the Wolfcamp formation within one mile thereof, and not nearer to or within the limits of another designated Wolfcamp oil pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 160 acres, more or less, substantially in the form of a square, which is a governmental quarter-section being a legal subdivision of the United States Public Lands Survey.

RULE 3. The Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located no closer than 660 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard proration unit (158 through 162 acres) shall be based on a depth bracket allowable of 347 barrels of oil per day, and in the event there is more than one well on a 160-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

IT IS FURTHER ORDERED THAT:

(3) The location of all wells presently drilling to or completed in the Penasco Draw-Wolfcamp Pool or in the Wolfcamp formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Artesia District Office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(4) Pursuant to Paragraph A of Section 70-2-18, N.M.S.A. 1978 Comp., contained in Laws of 1969, Chapter 271, existing oil wells in the Penasco Draw-Wolfcamp Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

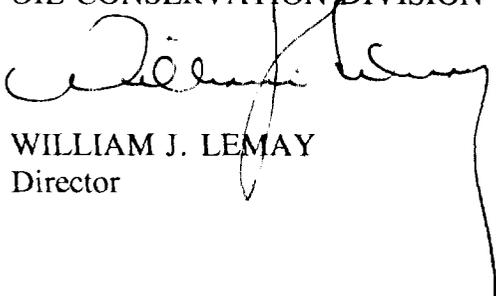
Failure to file new Forms C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable until a non-standard spacing unit has been approved and, subject to said 60-day limitation, each well presently drilling to or completed in the Penasco Draw-Wolfcamp Pool or in its corresponding vertical limits as described in Ordering Paragraph No. (1) above, or within one mile thereof, shall receive no more than one-fourth of a standard allowable for said pool.

(5) This case shall be reopened at an examiner hearing in July, 1995, at which time the operators in the subject pool may appear and show cause why the Temporary Special Rules and Regulations for the Penasco Draw-Wolfcamp Pool promulgated herein should not be rescinded.

(6) Jurisdiction of this cause 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director

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