

**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. 12291
Order No. R-11310*

**APPLICATION OF YATES PETROLEUM CORPORATION FOR AN
UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 16, 1999, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 14th day of January, 2000, 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, Yates Petroleum Corporation (Yates), seeks an exception to Division Rule No. 104.C.(2), to permit the re-entry and deepening of the plugged and abandoned R. L. Burns Corporation Witt Well No. 1 (API No. 30-025-24559), to be redesignated the R. T. Burns "ATL" Well No. 1, to the Mississippian formation at an unorthodox gas well location 330 feet from the South and East lines (Unit P) of Section 11, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico. The E/2 of Section 11 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit.

(3) The record in this case indicates that this application was originally filed with the Division for administrative approval on October 18, 1999. This application was subsequently set for hearing before a Division examiner as a result of an objection filed on October 18, 1999 by Chesapeake Operating, Inc., an affected offset operator.

(4) Evidence presented by Yates indicates that Chesapeake Operating, Inc. has now waived objection to the proposed unorthodox location.

(5) The applicant testified that the primary target within the proposed well is the Morrow formation. Secondary targets include the Upper-Pennsylvanian and Mississippian formations.

(6) The proposed proration unit is located one mile from the outer boundary of the North Townsend-Mississippian Gas Pool and less than one mile from the outer boundaries of the Townsend-Morrow and Townsend Permo-Upper Pennsylvanian Gas Pools.

(7) The North Townsend-Mississippian, Townsend-Morrow and Townsend Permo-Upper Pennsylvanian Gas Pools are currently governed by Division Rule 104.C.(2), which requires 320-acre gas spacing and proration units with wells to be located no closer than 660 feet to the outer boundary of the quarter section in which the well is located nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(8) Division records indicate that the subject well was drilled in December, 1973 by R. L. Burns Corporation to a depth of 12,111 feet to test the Pennsylvanian formation. No commercial hydrocarbon production was encountered and the well was subsequently plugged and abandoned in December, 1973.

(9) The applicant presented geologic evidence indicating that:

- (a) within Section 11 and the sections immediately adjacent to Section 11, there have been a total of eighteen wells drilled to a depth sufficient to test the Morrow formation. Of these eighteen wells, only four have been completed as commercial producing wells in the Morrow;
- b) based upon its geologic analysis, wells that have been completed as commercial Morrow gas producers in this area are those that have encountered thick Morrow sections (> 489 feet) and are adjacent to areas of steep dip which has enhanced porosity and permeability; and
- c) its geologic interpretation demonstrates that the well location of the proposed R. L. Burns "ATL" Well No. 1 provides the optimum opportunity to encounter commercial Morrow gas production within the E/2 of Section 11.

(10) Based upon an estimated ultimate gas recovery of 1.5 BCF (the average recovery for Morrow wells in this area), the applicant testified that it would not be economic to either drill a new well or directionally drill the R. L. Burns "ATL" Well No. 1 to a standard location within the E/2 of Section 11 to recover the Morrow gas reserves underlying the proposed proration unit.

(11) The applicant presented as evidence waivers of objection to the proposed unorthodox gas well location from Chesapeake Operating, Inc., Global Natural Resources Corporation of Nevada, a subsidiary of Ocean Energy, Inc., and Merit Energy Company, and all which are all of the affected offset operators and/or interest owners.

(12) The applicant also presented as evidence a stipulated waiver of objection to the proposed unorthodox gas well location from David H. Arrington Oil and Gas, Inc. This waiver, which has been agreed to and executed by Yates Petroleum Corporation, contains a provision whereby the R. L. Burns "ATL" Well No. 1 shall be subject to a production penalty in any formation governed by Oil Conservation Division rules that provide for wells to be located no closer than 660 feet to the quarter-section boundary. The provision further stipulates that the production penalty shall equal the percentage the well's bottomhole location encroaches on the quarter-section boundary based upon a 660-foot minimum setback.

(13) Approval of the application, subject to the production penalty described in Finding No. (12) above, will provide the applicant the opportunity to economically recover the gas reserves in the Morrow formation underlying the E/2 of Section 11, thereby preventing waste, and will not violate correlative rights.

(14) Subsequent to completing re-entry operations on the R. L. Burns "ATL" Well No. 1, the applicant should conduct a directional survey to determine the bottomhole well location. The applicant should notify the supervisor of the Division's Hobbs District Office of the date and time the directional survey will be conducted on the well so that this operation may be witnessed. The results of the directional survey should be provided to the Santa Fe Office of the Division in order that the well's production penalty may be calculated

(15) The production penalty should be applied against the well's ability to produce into the pipeline as determined from semi-annual deliverability tests.

(16) The applicant should notify the supervisor of the Division's Hobbs District Office prior to conducting any semi-annual deliverability tests on the R. L. Burns "ATL" Well No. 1, so that these tests may be witnessed.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Yates Petroleum Corporation, is hereby granted an exception to Division Rule No. 104.C(2), to permit the re-entry and deepening of the plugged and abandoned R. L. Burns Corporation Witt Well No. 1 (API No. 30-025-24559), to be redesignated the R. T. Burns "ATL" Well No. 1, to the Mississippian formation at an unorthodox gas well location 330 feet from the South and East lines (Unit P) of Section 11, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico. The E/2 of Section 11 shall be dedicated to the well forming a standard 320-acre gas spacing and proration unit.

(2) The unorthodox location approval shall apply to any formations and/or pools currently spaced on 320-acres that are subject to the setback requirements contained within Division Rule No. 104.C.(2).

(3) The R. L. Burns "ATL" Well No. 1 shall be subject to a production penalty in any formation governed by Oil Conservation Division rules that provide for wells to be located no closer than 660 feet to the quarter-section boundary. The production penalty shall equal the percentage the well's bottomhole location encroaches on the quarter-section boundary based upon a 660-foot minimum setback.

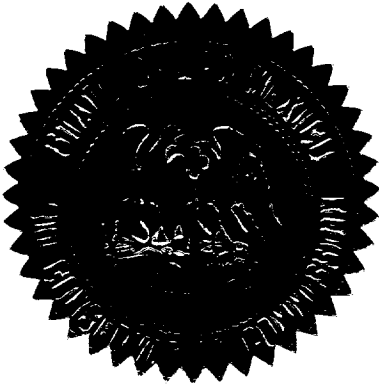
(4) Subsequent to completing re-entry operations on the R. L. Burns "ATL" Well No. 1, the applicant shall conduct a directional survey to determine the bottomhole well location. The applicant shall notify the supervisor of the Division's Hobbs District Office of the date and time the directional survey will be conducted on the well so that this operation may be witnessed. The results of the directional survey shall be provided to the Santa Fe Office of the Division in order that the well's production penalty may be calculated

(5) The production penalty shall be applied against the well's ability to produce into the pipeline as determined from semi-annual deliverability tests.

(6) The applicant shall notify the supervisor of the Division's Hobbs District Office prior to conducting any semi-annual deliverability tests on the R. L. Burns "ATL" Well No. 1, so that these tests may be witnessed.

(7) 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

Lori Wrotenbery
LORI WROTENBERY
Director