

**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. 13283
ORDER NO. R-12202**

**APPLICATION OF NEARBURG EXPLORATION COMPANY, L.L.C. FOR AN
EXCEPTION TO DIVISION RULE 104.C.(2)(c), LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 24, 2004, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 30th day of August, 2004, 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, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks an exception to Division Rule 104.C.(2)(c) to allow two operators in all formations developed on 320-acre spacing in the N/2 of Section 14, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This unit will be simultaneously dedicated to the existing Corner Pocket "14" State Well No. 1 (API No. 30-025-35024) located 660 feet from the North and East lines (Unit A) of Section 14, which is currently operated by ConocoPhillips Company ("ConocoPhillips"), and to the proposed Outland "14" State Well No. 1 to be located 660 feet from the North line and 1650 feet from the West line (Unit C) of Section 14, which will be drilled and operated by Nearburg.

(3) Division Rule 104.C.(2) provides that in Southeast New Mexico, an initial and infill well may be drilled on a standard gas spacing and proration unit comprising 320 acres provided that: (i) the initial and infill well shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; (ii)

the infill well shall be located within the quarter section not containing the initial well; and (iii) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(4) Division records show that the Corner Pocket "14" State Well No. 1 was drilled in June/July, 2000 by Southwestern Energy Production Company ("Southwestern") and was completed in the Wilson-Morrow Gas Pool through the perforated interval from 12,654-12,708 feet. Division records further show that:

- (a) Phillips Petroleum Company ("Phillips") assumed operatorship of the well on September 1, 2000;
- (b) in March, 2002 Phillips recompleted the well from the Morrow formation to the Atoka formation. The Morrow perforations from 12,654-12,708 feet were isolated below a bridge plug and the Atoka formation was perforated from 12,128-12,136 feet;
- (c) the Atoka formation subsequently tested at a rate of 844 MCF of gas, 11 barrels of oil and seven barrels of water per day; and
- (d) in January, 2003 ConocoPhillips assumed operatorship of the well.

(5) Nearburg presented evidence that demonstrates that:

- (a) the N/2 of Section 14 comprises a single state lease, State of New Mexico Lease No. E-1923;
- (b) the N/2 of Section 14 is subject to a joint operating agreement between Southwestern and ConocoPhillips dated May 11, 2000;
- (c) the working interest within the N/2 of Section 14 is owned by Southwestern (55%) and ConocoPhillips (45%);

- (d) on May 17, 2004, ConocoPhillips and Nearburg executed a term assignment and agreement affecting the N/2 of Section 14, excluding wellbore and all rights to the Corner Pocket "14" State Well No. 1; and
- (e) on June 1, 2004, Southwestern and Nearburg executed a term assignment and agreement affecting the N/2 of Section 14.

(6) Pursuant to the provisions of the term assignments and agreements executed with ConocoPhillips and Southwestern:

- (a) Nearburg has the right to drill a well within the NW/4 of Section 14 to recover additional Morrow and/or Atoka gas reserves;
- (b) ConocoPhillips and Southwestern retain sole ownership of the Corner Pocket "14" State Well No. 1, and ConocoPhillips will continue to operate this well;
- (c) Nearburg will own 100% of the working interest in the proposed Outland "14" State Well No. 1; and
- (d) ConocoPhillips and Southwestern will retain an overriding royalty interest in the proposed Outland "14" State Well No. 1.

(7) By virtue of assigning its operating rights to Nearburg, it is apparent that neither ConocoPhillips or Southwestern desires to drill and operate an additional Atoka/Morrow well within the subject spacing unit.

(8) Both ConocoPhillips and Southwestern were provided notice of this application. Neither party appeared at the hearing in opposition to the application.

(9) Upon review of the evidence presented in this case and Division records, the Division finds that:

- (a) both the Wilson-Morrow and Wilson-Atoka Gas Pools are non-prorated gas pools and are therefore not subject to production restrictions. Pursuant to Division rules, the proposed Outland "14" State Well No. 1 and the Corner Pocket "14" State Well No. 1 will be allowed to produce at capacity;
- (b) both the Outland "14" State Well No. 1 and the Corner Pocket "14" State Well No. 1 are located at standard gas well locations;
- (c) the production from each of the subject wells will be processed and metered separately, and there will be no commingling of production;
- (d) ONGARD (Oil and Natural Gas Administration Revenue Database), the Division's production reporting system, is capable of accepting monthly production reports from two operators within a spacing unit;
- (e) the royalty interest owner, the State of New Mexico, will not be adversely affected by the proposed method of operation; and
- (f) the interest owners within the N/2 of Section 14, ConocoPhillips, Southwestern and Nearburg are in apparent agreement that Nearburg should drill and operate the infill well on this 320-acre spacing and proration unit

(10) Approval of the application will enable Nearburg to produce additional gas reserves from the Wilson-Atoka and/or Wilson-Morrow Gas Pools underlying the N/2 of Section 14 that may otherwise not be recovered, thereby preventing waste, and will not violate correlative rights.

(11) Prior to commencing drilling operations on the Outland "14" State Well No. 1, Nearburg should consult with the Commissioner of Public Lands for the State of New Mexico and the New Mexico Taxation & Revenue Department to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of those agencies.

(12) At the request of the applicant, Nearburg Producing Company should be designated the operator of the proposed Outland "14" State Well No. 1.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Nearburg Exploration Company, L.L.C., is hereby granted an exception to Division Rule 104.C.(2)(c) to allow two operators in all formations developed on 320-acre spacing within an existing 320 acre gas spacing and proration unit comprising the N/2 of Section 14, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This unit shall be simultaneously dedicated to the existing Corner Pocket "14" State Well No. 1 (API No. 30-025-35024) located 660 feet from the North and East lines (Unit A) of Section 14, which is currently operated by ConocoPhillips Company and which is currently completed in the Wilson-Atoka Gas Pool, and to the proposed Outland "14" State Well No. 1 to be located 660 feet from the North line and 1650 feet from the West line (Unit C) of Section 14, which will be drilled and operated by Nearburg Producing Company.

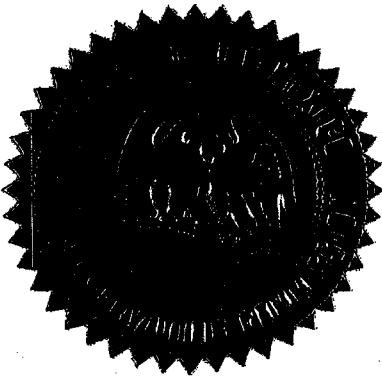
(2) Prior to commencing drilling operations on the Outland "14" State Well No. 1, Nearburg Exploration Company, L.L.C. shall consult with the Commissioner of Public Lands for the State of New Mexico and the New Mexico Taxation & Revenue Department to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of those agencies.

(3) Each of the operators within the N/2 of Section 14 shall comply with all Division rules applicable to their respective wells, including, but not limited to, production reporting, well maintenance and operation, well testing, plugging and abandonment, etc.

(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

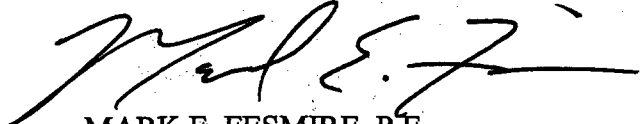
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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


MARK E. FESMIRE, P.E.
Director