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. 13804
ORDER NO. R-12673

APPLICATION OF READ & STEVENS, INC. TO LIMIT THE WELL SPACING RULES OF THE LAKE ARTHUR-PENNSYLVANIAN GAS POOL TO ITS CURRENT HORIZONTAL EXTENT, CHAVES COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 9, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 4th day of December, 2006, 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 Lake Arthur-Pennsylvanian Gas Pool (Gas - 79920) was created by Division Order No. R-2449 dated March 20, 1963. Pursuant to Division rules in effect at that time, the pool was spaced on 160 acres, and wells were required to be located no closer than 660 feet to the outer boundary of the quarter section, and no closer than 330 feet to any quarter-quarter section line or subdivision inner boundary. Subsequent Division rules changed the deep gas spacing in Southeast New Mexico from 160 acres to 320 acres; however, the 320-acre gas spacing only applied to those Pennsylvanian gas pools that were created and defined by the Division after June 1, 1964. All Pennsylvanian gas pools created prior to June 1, 1964 retained the original 160-acre well spacing.

(3) The applicant, Read & Stevens, Inc. ("applicant"), seeks an order limiting the current well spacing rules for the Lake Arthur-Pennsylvanian Gas Pool to acreage currently within the pool boundaries.

(4) The Lake Arthur-Pennsylvanian Gas Pool currently comprises the SW/4 of Section 31, Township 15 South, Range 27 East, NMPM, and the SE/4 of Section 36, Township 15 South, Range 26 East, NMPM, Chaves County, New Mexico.

(5) Division records show that there are currently two wells producing from the Lake Arthur-Pennsylvanian Gas Pool. These wells are the: i) Read & Stevens, Inc. Banshie State Well No. 1 (API No. 30-005-60406) located in Unit O of Section 36, Township 15 South, Range 26 East, NMPM; and the ii) COG Operating, LLC Moots Fee Well No. 1 (API No. 30-005-00205) located in Unit L of Section 31, Township 15 South, Range 27 East, NMPM. The Banshie State Well No. 1 is dedicated to a 160-acre gas spacing unit comprising the SE/4 of Section 36, and the Moots Fee Well No. 1 is dedicated to a 160-acre gas spacing unit comprising the SW/4 of Section 31.

(6) The applicant's geologic evidence shows that the Banshie State Well No. 1 is producing from the Strawn, Atoka and Morrow intervals within the Lake Arthur-Pennsylvanian Gas Pool.

(7) Division records further show that there are numerous existing Strawn, Atoka, Morrow and/or Pennsylvanian gas pools located to the south and east of the Lake Arthur-Pennsylvanian Gas Pool. Nearly all of these pools are spaced on 320 acres, including the Diamond Mound-Morrow Gas Pool and the Diamond Mound Upper-Pennsylvanian Gas Pool, both of which are located within 2 miles of the Lake Arthur-Pennsylvanian Gas Pool.

(8) The applicant is currently drilling a Pennsylvanian test well in Section 17, Township 16 South, Range 27 East, NMPM. This well is situated approximately 2-3 miles south of the Lake Arthur-Pennsylvanian Gas Pool. This well is also located within one mile of the Diamond Mound-Morrow Gas Pool, and will likely be placed within that pool if production is encountered.

(9) The applicant has also staked a well location in Section 4, Township 16 South, Range 27 East, NMPM, to test the Pennsylvanian formation. This proposed well is located within one mile of the Lake Arthur-Pennsylvanian Gas Pool, and is therefore subject to the rules that govern this pool.

(10) The primary objective(s) within the applicant's proposed well in Section 4 are the Atoka and Morrow intervals.

(11) The applicant's geologic evidence demonstrates that there is no geologic distinction between the intervals being produced in the Lake Arthur-Pennsylvanian Gas Pool, and in the various other Pennsylvanian pools in this area.

(12) The applicant seeks approval of this application so that it may develop the gas reserves in Section 4 on 320-acre spacing in accordance with Division Rule 19.15.3.104(C).

(13) The applicant provided notice of this application to COG Operating, LLC, the only other operator in the Lake Arthur-Pennsylvanian Gas Pool.

(14) No party appeared at the hearing in opposition to the application.

(15) Approval of the application will provide the applicant the opportunity to develop the gas reserves underlying Section 4, Township 16 South, Range 27 East, NMPM, on well spacing that the Division has deemed appropriate for the Pennsylvanian formation, and will not violate correlative rights.

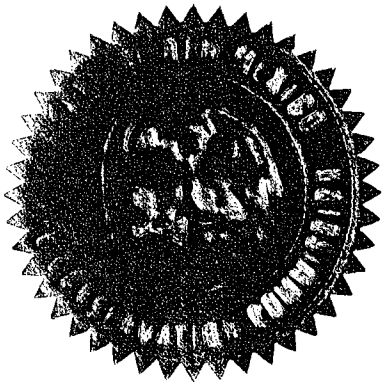
IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Read & Stevens, Inc., the well spacing and well setback requirements for the Lake Arthur-Pennsylvanian Gas Pool, which currently require 160-acre well spacing and designated well location requirements such that wells shall be located no closer than 660 feet to the outer boundary of the spacing unit, nor closer than 330 feet to any quarter-quarter section line or subdivision inner boundary, are hereby limited to the acreage currently contained within the pool, as specified in Ordering Paragraph No. (2) below.

(2) In addition, the boundaries of the Lake Arthur-Pennsylvanian Gas Pool, which are currently established as the SE/4 of Section 36, Township 15 South, Range 26 East, NMPM, and the SW/4 of Section 31, Township 15 South, Range 27 East, NMPM, shall not be extended further by the Division.

(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

MARK E. FESMIRE, P.E.
Director