

**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. 13112
ORDER NO. R-12054**

**APPLICATION OF PURE RESOURCES, L. P., FOR A BLANKET EXCEPTION IN
THE RINCON UNIT AREA TO THE WELL LOCATION REQUIREMENTS FOR
THE BLANCO-MESAVERDE GAS POOL, RIO ARRIBA COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 18, 2003, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 1st day of December, 2003, 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) Pure Resources, L. P. ("Pure") seeks an exception to the well location requirements of the Special Rules and Regulations for the Blanco-Mesaverde (Prorated Gas) Pool to permit the downhole commingling of production from the Blanco-Mesaverde (Prorated Gas) Pool and the Basin-Dakota (Prorated Gas) Pool in wellbores in the Rincon Unit area as previously approved by Division Order No. R-9893.

(3) The Rincon Unit is a Federal exploratory unit created in 1951 and approved by the Commissioner of Public Lands of the State of New Mexico, the Director of the United States Geological Survey, and the Oil Conservation Commission, Governor Edwin L. Mechem as Chairman, in Case 299, Order R-87. The Unit area embraced 20,642.7 acres more or less of the following lands:

RIO ARRIBA COUNTY, NEW MEXICO

Township 26 North, Range 6 West, NMPM
Section 6: All

Township 27 North, Range 6 West, NMPM

Sections 16 – 23, inclusive: All
Sections 26 – 32, inclusive: All

Township 26 North, Range 7 West, NMPM

Sections 1 and 2: All
Sections 11 and 12: All

Township 27 North, Range 7 West, NMPM

Sections 13 and 14: All
Section 15: E/2
Section 22: E/2
Sections 23 – 26, inclusive: All
Section 27: NE/4, S/2
Section 28: S/2
Sections 33 – 36, inclusive: All

(4) This unitized area is now still the same as it was in 1951. The only non-committed tract in the Unit consists of the N/2 of Section 24, Township 27 North, Range 7 West, NMPM.

(5) Pure Resources, L.P., as a fully owned subsidiary of Unocal, is the operator of the Rincon Unit.

(6) On May 18, 1993, in Case No. 10663, Order No. R-9893, the Division established a procedure whereby the operator of the Rincon Unit may administratively apply for downhole commingling without noticing all interest owners of the Dakota, Mesaverde, and Gallup participating areas within the Rincon Unit. Further, the Division found that (i) many additional infill locations exist in this Unit, (ii) Dakota, Mesaverde, and Gallup production is marginal, and (iii) downhole commingling is necessary to recover additional gas reserves and prevent waste.

(7) On December 2, 2002, in Case No. 12837, Order No. R-10987-A(1), the Division amended the special rules and regulations for the Blanco-Mesaverde (Prorated Gas) Pool, changing the well location provisions within federal exploratory units in the San Juan Basin to conform with well location requirements in the Basin-Dakota (Prorated Gas) Pool.

(8) Currently, amended Order No. R-10987-A, in ordering paragraph I.C., details well location requirements within the Blanco-Mesaverde (Prorated Gas) Pool for non-Indian lands as follows:

I.C. Well locations:

(1) Except as provided in subparagraph I.C (2) below, wells drilled on a gas proration unit ("GPU") shall be located no closer than 660 feet to the outer boundary of the GPU and no closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary.

(2) A well drilled or recompleted within a federal exploratory unit is not subject to the 660-foot setback requirement to the outer boundary of a GPU, provided however:

(a) the well shall not be closer than 10 feet to any section, quarter section, or interior quarter-quarter section line or subdivision inner boundary;

(b) the well shall not be closer than 660 feet to the outer boundary of the federal exploratory unit;

(c) if the well is located within the federal exploratory unit area but adjacent to an existing or prospective GPU containing a non-committed tract or partially committed tract, it shall not be closer than 660 feet to the outer boundary of its GPU;

(d) if the well is located within a non-committed or partially committed GPU, it shall not be closer than 660 feet to the outer boundary of its GPU;

(e) if the well is located within a participating area but adjacent to an existing or prospective GPU that is not within the same participating area, it shall not be closer than 660 feet to the outer boundary of the participating area; and

(f) if the well is located within the federal exploratory unit area but in an existing or prospective GPU that is a non-participating GPU, it shall not be closer than 660 feet to the outer boundary of its GPU.

(3) The operator filing an APD for any well within a federal exploratory unit area that is closer to the outer boundary of its assigned GPU than 660 feet shall provide proof in the form of a participating area plat that such well meets the requirements of I.C (2) above.

(9) Infill wells within the Rincon Unit may be drilled at differing allowable set-back locations depending on (i) if they are located within the latest boundaries of the participating areas or (ii) if they are located outside the latest boundaries of the participating areas.

(10) Within the Rincon Unit, participating areas for the Mesaverde and the Dakota do not cover the same geographic area. The Mesaverde participating area is currently located towards the northeast side and is smaller in areal extent than the Dakota participating area.

(11) Downhole commingling of the Mesaverde and Dakota pools is necessary to justify drilling infill wells.

(12) For optimum spacing of wells and development of the Rincon Unit on the currently allowed, effective 80-acre spacing, well locations need to be closer than 660 feet from the edge of the GPU boundaries.

(13) Infill wells, drilled outside the existing participating areas and closer than 660 feet from any edge of the GPU, may be allowed administratively after proper notice is provided to affected parties. Up to 30 potential optimum well locations exist within the Rincon Unit outside the current Mesaverde participating area and each of these would require administrative Division approval. Once a Mesaverde well is drilled outside the existing participating area, the participating area is usually expanded to encompass this new GPU, after which the 660-foot set-back is no longer required.

(14) The Applicant has provided notice of the intent of this application to all interest owners in the Rincon Unit. No one has opposed this application.

(15) A blanket exception should be granted in the Rincon Unit area to the well location requirement as stated in Division Order No. R-10987-A(1) ordering paragraph I.C.(2)(f) for the Blanco-Mesaverde (Prorated Gas) Pool, provided that the well locations in the Mesaverde formation conform to the Dakota locations authorized in the Rincon Unit area by the Special Rules and Regulations for the Basin-Dakota (Prorated Gas) Pool.

(16) Approval of this application is in the best interest of conservation and will prevent waste of hydrocarbons and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Pure Resources, L. P., a blanket exception is hereby granted in the Rincon Unit area to the well location requirement as stated in Division Order No. R-10987-A(1) ordering paragraph I.C.(2)(f) for the Blanco-Mesaverde (Prorated Gas) Pool which reads as follow:

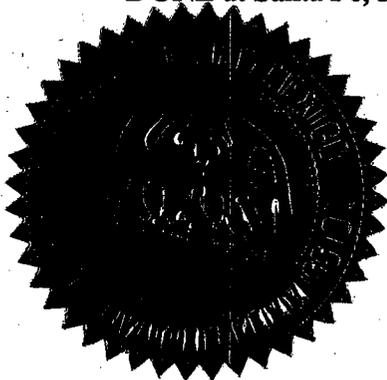
“I.C.(2)(f) If the well is located within the federal exploratory unit area but in an existing or prospective GPU that is a non-participating GPU, it shall not be closer than 660 feet to the outer boundary of its GPU.”

(2) Well locations in the Blanco-Mesaverde (Prorated Gas) Pool within the boundaries of the Rincon Unit shall conform to the Dakota locations authorized in the Rincon Unit area by the Special Rules and Regulations for the Basin-Dakota (Prorated Gas) Pool.

(3) All provisions applicable to the Blanco-Mesaverde (Prorated Gas) Pool contained in Division Order No. R-10987-A(1) and Part “H” of the Division’s statewide rules and regulations entitled “*Gas Proration and Allocation*” (Rules 601 through 605) not in conflict with this order shall remain in full force and effect until further notice.

(4) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script that reads "Lori Wrottenbery".

LORI WROTENBERY
Director