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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

April 26, 1995

HAND DELIVERED

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: NMOCD Case 11189
Application of Oryx Energy Company for
an Unorthodox Well Location and
Simultaneous Dedication
Eddy County, New Mexico

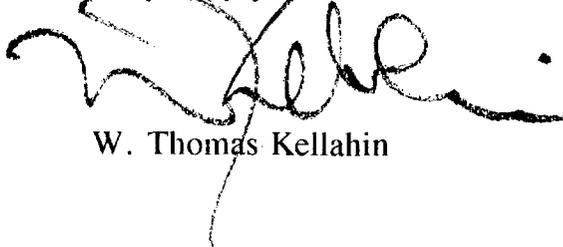
OIL CONSERVATION DIVISION
REC'D
95 APR 26 AM 8 52

Dear Mr. Stogner:

On behalf of Oryx Energy Company, please find enclosed our proposed order for your consideration in this matter which was presented to you at the hearing held on January 19, 1995.

I have enclosed a copy of this draft order on the enclosed 5.25 diskette which is formatted to wordperfect 5.1

Very truly yours,



W. Thomas Kellahin

cc: Oryx Energy Company
cc: William F. Carr, Esq.

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. 11189
Order No. R-

APPLICATION OF ORYX ENERGY COMPANY
FOR AN UNORTHODOX GAS WELL LOCATION
AND FOR SIMULTANEOUS DEDICATION,
EDDY COUNTY, NEW MEXICO

**ORYX ENERGY COMPANY'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 19, 1995,
at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of April, 1995, 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.

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REC'D

(2) The applicant, Oryx Energy Company ("ORYX"), seeks approval to drill its Conoco State Well No. 2 at an unorthodox gas well location 800 feet from the South line and 800 feet from the West line (Unit M) Section 2, Township 22 South, Range 23 East, NMPM, Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico. Applicant further proposes to simultaneously dedicate all of said Section 2 to the above described well and to its currently producing Conoco State Well No. 1, located 1775 feet FNL and 1980 feet FWL (Unit F) to form a standard 640-acre gas spacing and proration unit.

(3) ORYX has the right to drill and test for Pennsylvanian gas production in Section 2, T22S, R23E, NMPM, Eddy County, New Mexico.

(4) The proposed gas well will be located within the current boundaries of the Indian Basin-Upper Pennsylvanian Gas Pool which was created by Order R-2440 dated March 1, 1963 and was initially spaced on 640 acre spacing, Rule 2(A), with Rule 2(B) setting standard well locations to be no closer than 1650 feet to the outer boundary of the spacing unit. On April 14, 1965, the Division entered Order R-1670-F in Case 3237 which established gas proration for the pool.

(5) ORYX presented geologic and reservoir engineer data which demonstrates that:

(a) water encroachment is adversely affecting production from its existing well in Section 2, the Conoco State Well No. 1 located 1775 feet from the North line and 1980 feet from the West line (Unit F);

(b) the proposed Conoco State Well No. 2 ultimately will be a "replacement" well and will be drilled at an unorthodox location in order to gain sufficient structural position in its spacing unit to attempt to recover any remaining recoverable gas reserves underlying Section 2 and thereby protect correlative rights; and

(c) that the proposed well is immediately needed to protect this spacing unit from further offset drainage occurring from the southwest.

6. Oryx proposes that it be authorized to:

(a) to drill its Conoco State Well No. 2 at an unorthodox gas well location 800 feet from the south and west lines of Section 2;

(b) until such time as the Conoco State Well No. 1 has "watered out", Oryx seeks approval to drill, operate and produce the gas allowable assigned to this spacing unit from either or both of these two wells in any combination. Once the Conoco State Well No. 1 is completely watered out, the Oryx seeks approval to produce the spacing and proration unit's gas allowable from the Conoco State Well No. 2; and

(c) that the entire spacing unit be subject to an acreage factor of 0.62 (being a 38% penalty).

7. Chevron USA Inc. appeared at the hearing and recommended a production penalty be assessed against the proposed Conoco State Well No. 2.

8. Because gas allowables in the Indian Basin-Upper Pennsylvanian Gas Pool are established on a 640-acre spacing unit basis and not on an individual well basis, it is not possible under the Division's rules and regulations to implement and monitor an effective penalty against the production from a single well within a multiple well spacing unit.

9. At the hearing, both ORYX and Chevron agreed that in this case it would be appropriate to apply the penalty formula commonly utilized in this pool against the spacing unit allowable so that the total penalized allowable may be produced from either or both wells in the spacing unit in any combination.

10. MW Petroleum Corporation/Apache Corporation ("Apache") submitted a written letter objecting to the proposed simultaneous dedication and requested that the Division require ORYX to abandon its Conoco State Well No. 1 before it commenced producing its Conoco State Well No. 2 citing as its reason NMOCD Case 10423 (Order R-9619).

11. A review of the record in Case 10423 demonstrates that Apache advised the Division that it voluntarily intended to plug and abandon its first well on the spacing unit before commencing production of the unorthodox well and was not required to do so by either the Division or requested to do so by any offset operator.

12. The fact that Apache failed to propose a penalty against its entire spacing unit allowable which would have then allow simultaneous production of its wells should not preclude the Division from granting that solution to another operator.

13. That 62% of a full un-penalized allowable based upon the following penalty is consistent with the method used in penalizing other unorthodox well locations and should be applied in this case:

(a) productive acreage factor for Section 2:
487 acres of 640 acre = 76% of allowable; and

(b) Ratio of Distance factor:
800 feet / 1650 feet = 48% of allowable

76 + 48 divided by 2 = 62%

14. The above penalty will provide a reasonable restriction to protect correlative rights of offsetting operators but is sufficient to afford the applicant the opportunity to protect its correlative right to recover its share of remaining recoverable gas underlying its spacing unit before that gas is swept from its unit.

(15) Approval of the application will afford the applicant the opportunity to produce its just and equitable share of the gas in the Devonian formation, will 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 and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Oryx Energy Company, is hereby authorized to drill its Conoco State Well No. 2 at an unorthodox gas well location 800 feet from the South line and 800 feet from the West line (Unit M) Section 2, Township 22 South, Range 23 East, NMPM, Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico.

(2) Applicant is further authorized to simultaneously dedicate all of Section 2, Township 22 South, Range 23 East, NMPM, to its currently producing Conoco State Well No. 1, located 1775 feet FNL and 1980 feet FWL (Unit F) and to its proposed Conoco State Well No 2 (Unit M) of said Section 2 thereby forming a standard 640-acre gas spacing and proration unit dedicated to these two wells and shall have the option to produce both wells continuously and concurrently, or in the alternative, to produce said wells alternately.

PROVIDED HOWEVER THAT:

(3) Said spacing unit shall be assigned, for gas allowable purposes, an acreage factor of 0.62 in the Indian Basin-Upper Pennsylvanian Gas Pool.

(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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director