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JASON KELLAHIN (RETIRED 1991)

August 30, 1995

HAND DELIVERED

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

Re: *NMOCD Case 11283*
Application of Yates Petroleum Corporation
for an Amendment to Order R-9976-A authorizing
a change in an unorthodox gas well location,
Chaves County, New Mexico

NMOCD Case 11355
Application of Tide West Oil Company
for an Unorthodox Infill Gas Well Location
and Simultaneous Dedication, Chaves County, New Mexico

Dear Mr. Stogner:

On behalf of Tide West Oil Company, please find enclosed our proposed order for your consideration in this matter which was presented to you at the hearing held on August 10, 1995.

Very truly yours,



W. Thomas Kellahin

cc: *William F. Carr, Esq.*
Attorney for Yates Petroleum Corporation
cc: *Tide West Oil Company*
Attn: Kim Goss

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:

APPLICATION OF YATES PETROLEUM
CORPORATION FOR AN AMENDMENT TO
ORDER R-9976-A AUTHORIZING A
CHANGE IN AN UNORTHODOX GAS WELL
LOCATION, CHAVES COUNTY, NEW MEXICO.

CASE 11283

APPLICATION OF TIDE WEST OIL COMPANY
FOR AN UNORTHODOX INFILL GAS WELL
LOCATION AND SIMULTANEOUS DEDICATION
CHAVES COUNTY, NEW MEXICO

CASE 11355

ORDER R-_____

TIDE WEST OIL COMPANY'S PROPOSED ORDER
OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 10, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ___ day of September, 1993, 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.

(2) The applicant in Case 11283, Yates Petroleum Corporation ("Yates"), seeks approval of an unorthodox gas well location for its Catterson "SS" Federal Well No. 7 ("Catterson #7 Well) which already has been drilled at an unorthodox gas well location 2310 feet from the South line and 660 feet from the East line (Unit I) of Section 21, T7S, R26E, NMPM, Chaves County, New Mexico, with the SE/4 of said Section 21 being dedicated to production from the Pecos Slope-Abo Gas Pool.

(3) Yates' Catterson #7 Well encroaches towards the adjoining spacing unit consisting of the NE/4 of said Section 21 which is currently operated by Tide West Oil Company ("Tide West") and is dedicated to its Chaves "A" Federal Well No. 1 located in Unit B of said Section 21.

(4) The applicant in Case 11355, Tide West Oil Company ("Tide West"), seeks approval to drill its Chaves "A" Federal Well No. 2 at an unorthodox gas well location 2310 feet FNL and 660 feet FEL of said Section 21 as an offset drainage protection well in an attempt to protect its spacing unit from drainage by the Yates' Catterson #7 Well.

(5) Yates does not oppose the granting of Tide West's application in Case 11355.

(6) Tide West does not oppose the granting of the Yates' application in Case 11283 **provided that a penalty** is adopted in said case as follows:

(a) the producing allowable for the Catterson #7 Well shall commence from the date of the Division's order entered in Case 11283;

(b) any and all production from the Catterson #7 Well from the date of first production until the date of that order shall constitute "over-production" which shall be made up by subtracting said over-production from the allowable assigned to this well;

(c) the producing allowable assigned to the Catterson #7 Well shall be not more than 50% of its average monthly rate at which the well is currently producing into a pipeline under normal operating conditions; and

(d) on the date of "first gas sales" from Tide West's Chaves "A" Federal Well No. 2, the 50% production penalty on Yates' Catterson #7 Well shall terminate as of that date for any and all future production from the Yates' well.

(7) A summary chronology for the Catterson #7 Well is as follows:

(a) On July 26, 1994, the Division issued Order R-9976-A which, among other things, approved an application by Yates in Case 11004 to drill its Catterson #7 Well at an unorthodox well location 2310 feet FSL and 790 feet FEL of Section 21 ("the original location") as part of its infill drilling pilot project in the Pecos Slope Abo Gas Pool which was authorized by Order R-9976 issued on September 24, 1993 in Case 10793;

(b) On October 17, 1994, Yates filed an Application for Permit to Drill which changed the location of the Catterson #7 Well from that originally approved by Order R-9976-A

(c) On November 16, 1994 the BLM approved the new unorthodox location for the Catterson #7 Well at a location 2310 feet FSL and 660 feet FEL of said Section 21 ("the new location");

(d) On January 4, 1995, Yates spudded the Catterson #7 Well at its new location and by April 3, 1995 had the well completed and ready to produce;

(e) Despite knowing by October, 1994, that the BLM would require it original Catterson #7 well location to be moved, Yates waited until March 31, 1995 to commence the administrative process to obtain Division approval for the new

location and sent notice to Tide West who now is the offset operator on the north side of the Yates' spacing unit;

(f) On April 12, 1995, Tide West timely filed an objection to Yates' application;

(g) Without Division approval, Yates has produced the Catterson #7 Well from April 6, 1995 so that as of July 31, 1995 it had produced a total of 29,057,000 cubic feet of gas.

(8) Yates presented a petroleum engineer who testified that:

(a) while the Abo sand members of the Pecos Slope Abo Gas Pool productive in Yates' Catterson #7 Well logically extended into the Tide West spacing unit, it was not possible for him to estimate the well's ultimate recovery or to determine a drainage pattern for the well;

(b) Yates had no objection to Tide West drilling a drainage protection well not closer than 330 feet to the common boundary between the Yates and the Tide West spacing units;

(c) while Yates did not want its well penalized, if a penalty was adopted then a 50 % penalty based upon the percentage of encroachment from a standard well location was a reasonable penalty method;

(d) Yates contends it should not be penalized because it was moving no closer to the Tide West location than its original location which had been approved without a penalty by the Division because the previous owner of the Tide West spacing unit had waived any objection;

(e) Yates' field operation manager had determined that 569 MCFPD was the optimum maximum rate to produce the Catterson #7 Well;

(f) Yates should not be required to "make-up" the 29,057,000 cubic feet of gas it had produced as of July 31, 1995 because it had only produced the well 73 days out of the possible 117 days it could have been produced;

(g) Any penalty on the Yates Catterson #7 Well should remain in place until such time as Tide West had first gas sales from its offsetting drainage protection well but that a maximum penalty period should be adopted of not more than 120 days.

(9) Tide West presented a geologic expert witness who presented evidence and testified that:

(a) The lenticular nature of the geology and the low permeability of the Abo reservoir made it geologically impossible for Tide West's existing Chaves "A" Federal Well No. 1 to protect its spacing unit (NE/4 of Section 21) from drainage by the Yates' Catterson #7 Well;

(b) While all of the sand members of the Abo formation now producing in the Yates' Catterson #7 Well extend into the NE/4 of Section 21, not all of those sands are present in the existing Tide West Chaves "A" Federal Well No. 1 and therefore Tide West needs to drill a protection well at an unorthodox well location to offset the drainage caused by the Yates' well;

(c) A Pecos Slope Abo gas well such as the Catterson #7 Well typically commenced producing at a high rate (1+ MMCFPD) but in the first 8-12 months experienced a 30-40% decline before establishing a more gradual decline rate;

(d) that a 50% penalty on the Catterson #7 Well was reasonable and should be applied against the normal producing rate of the well taking into consideration that any penalty applied against the early performance of the well would after the first year amount to no penalty on the well.

(10) The Division **FINDS** that:

(a) in the absence of sufficient data from which to accurately determine a penalty for the Yates' Catterson #7 Well, it is appropriate to utilize the established Division method of adoption a penalty based upon the deviation from a standard well location in the north/south direction being the direction of encroachment towards the objecting party ($300/660 = 50\%$);

(b) Yates' has gained an unfair advantage over the correlative rights of Tide West by drilling and producing the Catterson #7 Well at the new unorthodox well location without first obtaining the approval of the Division and without notice to Tide West.

(c) by October 17, 1994 Yates knew it would have to move its well location for the Catterson #7 Well and yet elected to commence drilling the well on January 4, 1995, while not filing for Division approval until March 24, 1995;

(d) Yates' failed to provide any explanation for why it decided to produce the Catterson #7 Well without obtaining Division approval;

(e) As a result of drilling at an unorthodox well location, Yates has the opportunity to produce more than its fair share of the recoverable gas remaining in the reservoir and has violated Tide West's correlative rights. The unfair advantage Yates has gained over Tide West can be minimized by imposing a production limitation.

(f) Yates' presented testimony which demonstrates that the maximum efficient rate at which the Catterson #7 Well is produced on a daily basis without a penalty is 569 MCFPD and that this well has been and can be shut-in without causing damage or waste.

(11) The Division further **FINDS** that in order to protect the correlative rights of Tide West it is necessary to adopt a penalty which offsets the unfair advantage Yates has obtained in this case by adopting a penalty method as follows:

(a) the producing allowable for the Catterson #7 Well should commence from the date of the Division's order entered in Case 11283;

(b) any and all production from the Catterson #7 Well from the date of first production until the date of that order should constitute "over-production" which should be made up by subtracting said over-production from the allowable assigned to this well;

(c) the monthly producing allowable assigned to the Catterson #7 Well should be not more than 50% of 569 MCFPD times the number of days actually produced; and

(d) on the date of "first gas sales" from Tide West's Chaves "A" Federal Well No. 2, the 50% production penalty on Yates' Catterson #7 Well should terminate as of that date for any and all future production from the Yates' well.

(12) Approval of the unorthodox well location for production from the Abo formation in the Pecos Slope-Abo Gas Pool by the Yates' Catterson #7 Well, subject to a producing allowable factor of 50 percent, for by the Tide West Chaves "A" Federal Well No. 2, without a penalty, will afford both Yates and Tide West the opportunity to recover its just and equitable share of the remaining gas in the pool underling the SE/4 of Section 21, will protect Tide West's correlative rights and will otherwise prevent waste.

(13) Yates should be required to file with the Division certified actual daily production reports on the well.

IT IS THEREFORE ORDERED THAT:

(1) The applicant in Case 11283, Yates Petroleum Corporation, is **hereby authorized** to produce its Catterson "SS" Federal Well No. 7 at an unorthodox gas well location 2310 feet from the South line and 660 feet from the East line (Unit I) of Section 21, T7S, R26E, NMPM, Chaves County, New Mexico, with the SE/4 of said Section 21 being dedicated for production from the Pecos Slope-Abo Gas Pool **subject to the following limitations and conditions:**

(a) the producing allowable for the Catterson #7 Well shall commence from the date of this order;

(b) any and all production from the Catterson #7 Well from the date of first production until the date of that order should constitute "over-production" which shall be made up by subtracting said over-production from the allowable assigned to this well;

(c) the monthly producing allowable assigned to the Catterson #7 Well shall be not more than 50% of 569 MCFPD times the number of days actually produced; and

(d) on the date of "first gas sales" from Tide West's Chaves "A" Federal Well No. 2, the 50% production penalty on Yates' Catterson #7 Well shall terminate as of that date for any and all future production from the Yates' well.

(2) The applicant in Case 11355, Tide West Oil Company, is hereby authorized to drill its Chaves "A" Federal Well No. 2 at an unorthodox gas well location not closer than 2310 feet FNL and 660 feet FEL of said Section 21 as an offset drainage protection well in an attempt to protect its spacing unit from drainage by the Yates' Catterson #7 Well.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

NMOCD Case Nos. 11283 and 11355

Order No. R-_____

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

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

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