

**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. 11334

APPLICATION OF PHILLIPS PETROLEUM COMPANY
FOR A DETERMINATION OF PROPORTIONATE SHARE
OF RECOVERABLE HYDROCARBONS AND FOR A SPECIAL
DEPTH BRACKET OIL ALLOWABLE FOR THE SOUTH
PETERSON-FUSSELMAN POOL,
ROOSEVELT COUNTY, NEW MEXICO.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by Phillips Petroleum Company as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Phillips Petroleum Co.
4001 Penbrook
Odessa, Texas 79762
Attn: Reese B. Copeland, Esq.
(915) 368-1278

ATTORNEY

W. Thomas Kellahin
KELLAHIN AND KELLAHIN
P.O. Box 2265
Santa Fe, NM 87504
(505) 982-4285

OPPONENT

Enserch Exploration Inc.

ATTORNEY

William F. Carr
P. O. Box 2208
Santa Fe, New Mexico 87504

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STATEMENT OF CASE

APPLICANT

Phillips Petroleum Company petitions the Division to:

(a) make a determination in accordance with Section 70-2-33(H) NMSA (1978) of the proportionate share of recoverable hydrocarbons to which each proration and spacing unit is entitled substantially in the proportion that the quantity of recoverable hydrocarbons underlying each spacing unit bears to the total recoverable hydrocarbons of 492,000 barrels of oil in the pool as of January 1, 1995;

(b) to provide a method of recovery of that allocated share at a Maximum Special Oil Allowable of 267 BOPD made effective as of January 1, 1995.

On July 6, 1978, in Case 6270, the Division issued Order R-5771 which granted the application of Enserch Exploration, Inc. ("Enserch") to create the South Peterson-Fusselman Oil Pool ("the Pool") and to establish 80-acre oil proration and spacing units with a maximum depth bracket oil allowable of 267 BOPD.

On August 16, 1979, the Division issued Order R-5771-A which made these rules permanent and which remained unchanged for approximately sixteen years.

On February 23, 1995, the Commission heard Case 10994 (DeNovo) which was an appeal by Enserch to the Commission based upon a denial by Division Examiner Michael E. Stogner of Enserch's request to increase the Special Oil Allowable from 267 BOPD to 500 BOPD for the Pool.

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On April 18, 1995, the Commission entered Order R-5771-C which reversed the Examiner's decision and increased the Special Oil Allowable in the Pool from 267 to 500 BOPD.

Under the previous 267 BOPD allowable, the Enserch Lambirth Well No. 1 already has produced 980,000 barrels of oil and has drained 800 acres which amounts to 38% of the total oil in the entire pool while only having 20% of the original oil in place under this spacing unit.

As of January 1, 1995 there remained 492,000 barrels of recoverable oil in the pool to be recovered by the remaining four wells, three operated by Phillips and one operated by Enserch.

Subsequent to the Commission hearing, Phillips has obtained new data upon which petroleum engineering studies have been conducted which demonstrates that:

- (a) the new 500 BOPD allowable will not result in increasing ultimate oil recovery from the Pool; and
- (b) the new 500 BOPD allowable is simply reducing Phillips' share of remaining recoverable oil while increasing Enserch's share of remaining recoverable oil.

In accordance with the Oil and Gas Act, the Division is obligated to afford the opportunity:

"so far as it is practicable to do so, to the owners of each property in a pool to produce without waste his just and equitable share of the oil or gas or both in the pool, being an amount, so far as can be practicably determined and so far as can be practicably obtained without waste, substantially in the proportion that the quantity of recoverable oil or gas or both under the property bears to the total recoverable oil or gas or both in the pool, and for such purpose, to use his just and equitable share of the reservoir energy." See Section 70-2-33 (H) NMSA (1978).

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The Oil & Gas Act, also requires the Division to establish limits on oil allowables so that a high capacity well in a common source of supply would not impair the correlative rights of the owners of the adjoining low capacity wells.

As of January 1, 1995, Phillips had 191,000 barrels of recoverable oil remaining to be produced provided the pool's oil allowable of 267 BOPD was not increased to 500 BOPD. However, as a result of the new 500 BOPD Allowable, Phillips will suffer a loss of 159,000 barrels of remaining recoverable oil.

The Enserch's Lambirth Well No. 1 is at the highest structural portion of the reservoir being some 56 feet and 69 feet, respectively up-dip to the Phillips Lambirth A Well Nos. 1 and 2.

The new 500 BOPD Allowable for the Pool allows Enserch's well to produce at such a high rate that it drains a substantial portion of the remaining oil production from Phillips.

As of January 1, 1995, Enserch had 300,000 barrels of recoverable oil remaining in addition to the 980,000 barrels of oil it had already recovered provided the pool's oil allowable of 267 BOPD was not increased to 500 BOPD.

The new 500 BOPD Allowable will allow Enserch to produce 460,000 barrels out of the remaining 492,000 barrels including 159,00 barrels of oil to which Phillips is entitled.

An oil allowable of greater than 267 BOPD increases the rate of total fluids withdrawn from the Enserch well which creates a pressure differential in the reservoir which increases oil production by draining oil from the down-structure Phillips spacing unit.

The evidence further demonstrates that approval of the new 500 BOPD Allowable has caused excessive water migration increasing the water-oil ratios which in turn will decrease oil recovery for the down-structure oil wells thereby violating correlative rights by denying Phillips the opportunity to recover its share of the remaining oil.

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PROPOSED EVIDENCE

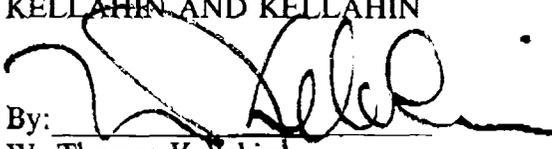
APPLICANT

WITNESSES	EST. TIME	EXHIBITS
Jack Pickett (P.E.)	45-60 Min.	est. 10 exhibits

PROCEDURAL MATTERS

None applicable at this time.

KELLAHIN AND KELLAHIN

By: 

W. Thomas Kellahin

P.O. Box 2265

Santa Fe, New Mexico 87504

(505) 982-4285