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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

June 19, 1995

HAND DELIVERED

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

*Re: Application of Phillips Petroleum Company
for a Determination in Accordance with
Section 70-2-33(H) NMSA (1878) of
Proportionate Share of Recoverable
Hydrocarbons and for the Adoption of
a Special Oil Allowable for the South
Peterson-Fusselman Oil Pool,
Roosevelt County, New Mexico.*

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Oil Conservation Division

Dear Mr. Stogner:

On behalf of Marathon Company, please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for July 13, 1995.

By copy of this letter and application, sent regular mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the hearing may preclude them from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, July 7, 1995, with a copy delivered to the undersigned.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours;



W. Thomas Kellahin

cc: Phillips Petroleum Company
attn: Reese B. Copeland, Esq.

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Oil Conservation Division

PROPOSED ADVERTISEMENT

CASE 11334 Application of Phillips Petroleum Company for a determination in accordance with Section 70-2-33(H) NMSA (1978) of the proportionate share of recoverable hydrocarbons and for the adoption of a special oil allowable for the Souther Peterson-Fusselman Oil Pool, Roosevelt County, New Mexico. Applicant, in the above styled cause, seeks a determination in accordance with Section 70-2-33(H) NMSA (1978) of the proportionate share of recoverable hydrocarbons to be allocated to each spacing and proration unit in the South Peterson-Fusselman Pool and the adoption of a special oil allowable of 267 BOPD effective January 1, 1995. Said Pool is located in portions of Sections 30 and 31, Township 6 South, Range 33 East, NMPM being approximately 21 miles southeast of Kenna, New Mexico.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:

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Oil Conservation Division

CASE NO. 11334

**APPLICATION OF PHILLIPS PETROLEUM COMPANY
FOR A DETERMINATION IN ACCORDANCE WITH SECTION
70-2-33(H) NMSA (1978) OF PROPORTIONATE SHARE OF
RECOVERABLE HYDROCARBONS AND FOR THE ADOPTION
OF A SPECIAL OIL ALLOWABLE FOR THE SOUTH
PETERSON-FUSSELMAN OIL POOL,
ROOSEVELT COUNTY, NEW MEXICO**

**APPLICATION
OF
PHILLIPS PETROLEUM COMPANY**

Comes now Phillips Petroleum Company, by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation Division for a Determination in Accordance with Section 70-2-33(H) NMSA (1978) of the Proportionate Share of Recoverable Hydrocarbons to be Allocated to Each Spacing and Proration Unit in the South Peterson-Fusselman Pool and for the adoption of a Special Oil Allowable of 267 barrels of oil per day per proration and spacing unit for said Pool, Roosevelt County, New Mexico, to be made effective January 1, 1995, and in support states:

(1) 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.

NMOCD Application
Phillips Petroleum Company
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(2) On August 16, 1979, the Division issued Order R-5771-A which made these rules permanent and which remained unchanged for approximately sixteen years.

(3) 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.

(4) 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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).

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

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

(15) 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.

(16) Although the bottom current perforations in three wells are at the same correlative structural position, and both Phillips and Enserch are using HVL equipment, Phillips has not been able to protect its spacing units from drainage by Enserch because the permeability in the bottom perforations in the Enserch well is "tight" while its upper perforations have better permeability and because those upper perforations are also structurally higher than those in the Phillips wells, Enserch is able to increase its oil rate by draining oil from Phillips' adjoining spacing units.

(17) 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.

(18) The installation of the HVL for the Enserch Lambirth "A" Well No. 1 has not demonstrated anything except that this is an acceleration in the rate of oil production.

(19) Phillips will present evidence which demonstrates that the increase in the oil allowable will benefit only one well in the pool, the Enserch well, and will cause that higher capacity oil well to drain the oil from the adjoining spacing units which cannot be protected by their existing wells thereby impairing correlative rights.

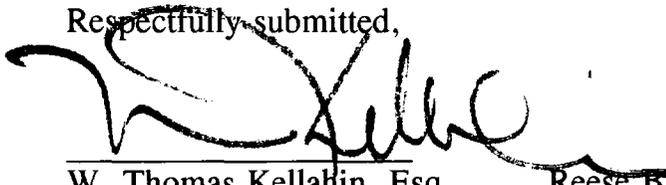
Wherefore, Phillips Petroleum Company petitions the Division to:

(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; and

(c) for such other relief as is appropriate in the circumstances.

Respectfully submitted,



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