

**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:

26 1996

CASE NO. 11512

APPLICATION OF MARATHON OIL COMPANY, KERR-MCGEE CORPORATION AND SANTA FE ENERGY RESOURCES INC. TO TERMINATE GAS PRORATIONING, TO INFILL DRILL AND TO AMEND THE SPECIAL RULE AND REGULATIONS FOR THE INDIAN BASIN-MORROW GAS POOL, EDDY COUNTY, NEW MEXICO.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by MARATHON OIL COMPANY, KERR-MCGEE CORPORATION AND SANTA FE ENERGY RESOURCES INC. as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANTS

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ATTORNEY

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STATEMENT OF CASE

APPLICANTS

Applicants are operators and working interest owners in the Indian Basin-Morrow Gas Pool, Eddy County, New Mexico.

The Indian Basin-Morrow Gas Pool ("the Pool") was established by Division Order R-2441 dated February 28, 1963 and made effective March 1, 1964. Said order further provided for 640-acre spacing units with standard well locations not closer than 1650 feet to the outer boundary of the section nor nearer than 330 feet to any interior quarter-quarter section.

By Division Order R-8170-O, dated November 27, 1995, the special rules and regulations for the Pool were confined to area identified on Exhibit "A" attached.

Gas production allocation or gas prorationing based on acreage alone was instituted in the Pool by Division Order R-1670-F, issued in Case 3237 and dated May 6, 1965 for the following reasons:

- (a) there were a total of eight wells completed in the Pool however no Morrow gas had been transported from these wells because no transportation facilities to this area were in existence;
- (b) there existed a market demand for this production and two purchasers were planning construction of gas transportation facilities to these wells; and,
- (c) the wells that were completed at the time were capable of producing in excess of the reasonable market demand for gas from the pool and were capable of producing in excess of the gas transportation facilities to be constructed.

and therefore production from the pool was restricted to reasonable market demand and the capacity of the gas transportation facilities to be constructed.

REASONS FOR TERMINATING PRORATIONING

Gas Prorationing for the Pool should now be terminated for reasons which include:

- (a) Since the institution of prorationing for this pool in 1963, there has been substantial changes in the pool production, development, gas purchasing and marketing practices and other factors affecting the oil and gas industry which make prorationing of the pool no longer necessary.
- (b) Market Demand currently exceeds the Deliverability for the Pool and for the remaining life of the Pool the total deliverability of the wells in the Pool is not expected to exceed market demand for gas produced from the Pool.
- (c) Currently there are 9 producing wells in the Pool with 5 wells classified as marginal and 4 wells classified as non-marginal.
- (d) 100 % of the operators of both marginal and non-marginal wells in the pool support the termination of prorationing in the pool
- (e) There are no wells in the pool which are underproduced because of a lack of market for the gas from a wells.
- (f) Geologic and engineering calculations establish that the higher capacity wells are draining less than 320-acres and therefore the termination of prorationing for the pool will not give the non-marginal wells any unfair advantage over the marginal wells.

- (g) Termination of prorationing for the pool will result in increased ultimate recovery from the pool thereby preventing waste.
- (h) Production of the non-marginal wells is being restricted by the proration system assignment of allowables for those wells and not by a lack of market for that production.
- (i) The Division' practice of using the Pool's production for the prior 6-month proration period as the main indication of actual market demand by which it sets allowables has not kept pool production in line with actual market demand because when allowable levels and well capabilities are such that a well attempting to meet its market demand hit the six times limit in two months or less, it will be curtailed by the time the allowable has a chance to reflect the increased market demand.
- (j) The current proration system for the pool lacks the flexibility to resolve the problem by simply producing the non-marginal wells at rates in excess of the current allowables and causing the future allowables to be adjusted upward to reflect actual market demand and now most non-marginal wells are at least six times overproduced.
- (k) Current allowables of 688 MCFPD are too low and do not accurately reflect the actual market demand for gas from the Pool.
- (l) While the current Commission has granted increases in allowables for certain prorated pools in Southeastern New Mexico, simply assigning more allowable to the pool would provide only temporary and partial incentives for additional production, drilling and

workover activities. Such adjustments will not provide a long term reliable solution because the Operators are not assured that such practice will continue and the opportunity to produce wells without allowable restrictions provides an economic incentive necessary to encourage further drilling in the pool.

- (m) Because the pipeline companies in the pool which used to be the purchasers of a substantial volume of gas produced are now transporters and not purchasers, the potential for non-ratable takes by the pipelines no longer exists and proration in this pool is no longer justified on that bases.
- (n) Because there is only one non-standard proration unit in the Pool and its well no longer produces, there exists no basis for continuing prorationing of the pool based upon the advantage a non-standard sized proration and spacing unit might theoretically have over standard sized spacing units.
- (o) Because there are no spacing units that currently have producing more than one well per 320-acres, prorationing can be terminated and spacing maintained at 640-acres with authorization for a second "infill" well.
- (p) All current unorthodox well locations are all for wells which are marginal and would not be subject to a penalty if prorationing was continued and thus is not a basis for continuing proration for the pool.
- (q) Cancellation of over and under production from any GPU will not create the potential for drainage which is not equalized by counter-drainage.

- (r) Termination of prorationing will not cause the non-marginal wells if allowed to produce at capacity to satisfy more than their share of the market and thereby displace or deny a market for the marginal wells
- (s) Termination of prorationing will not cause the high capacity wells if allowed to produce at capacity to take more than their share of the remaining gas reserves to the disadvantage of the marginal wells' GPU nor will this cause marginal wells to be prematurely abandoned.

The authorization of infill drilling of a second well on a standard 640-acre spacing unit and the amendment of Rule 4 of the current spacial pool rules for this pool to provide for standard well locations not closer than 660 feet to the outer boundary of a spacing unit are necessary because:

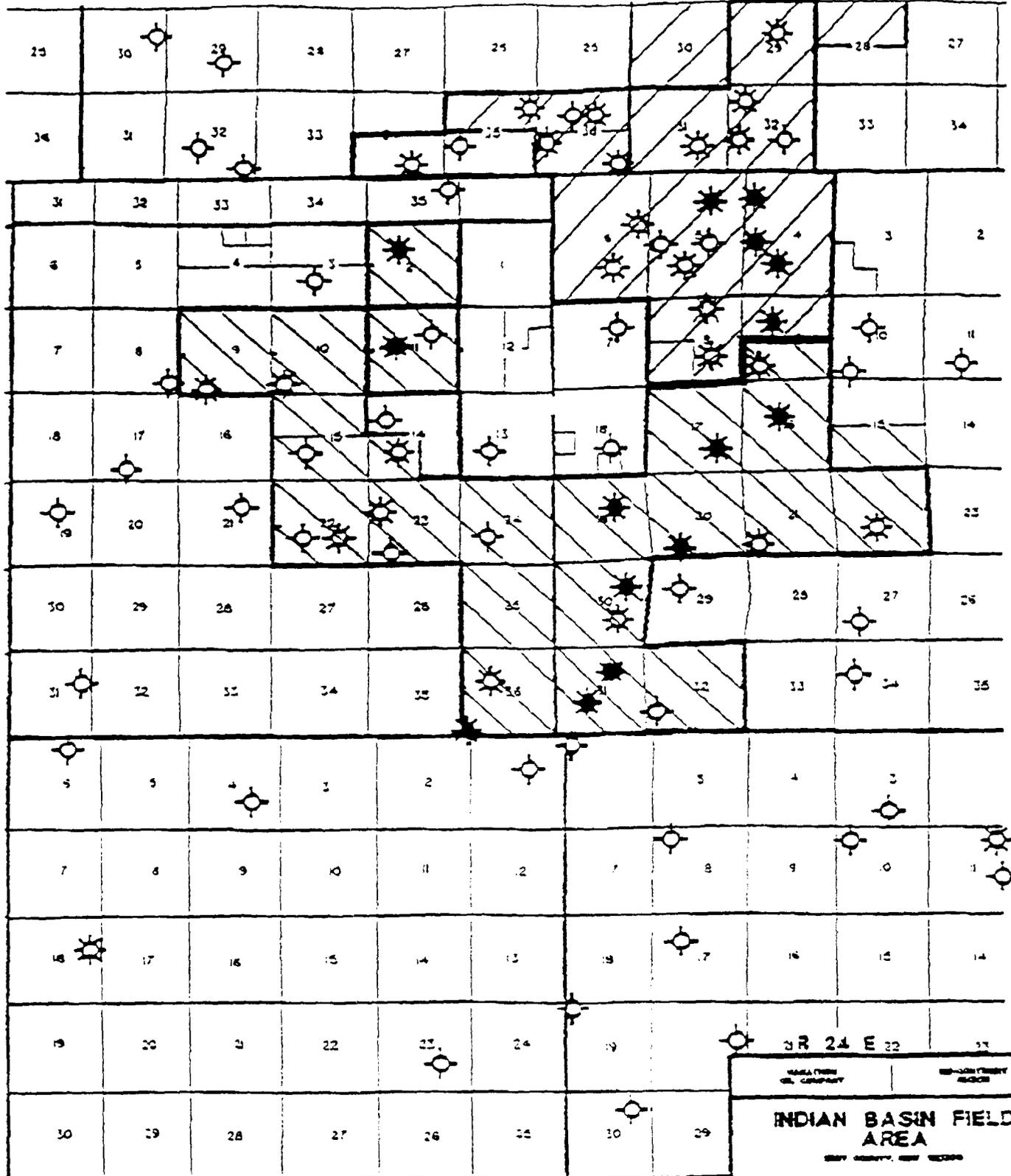
- (a) Production from the Morrow formation in the Pool is from many separate stringers which vary greatly in areal extent, porosity and thickness;
- (b) These stringers are not continuous across the Pool;
- (c) There is recoverable gas reserves underlying each of the spacing units which might not be recovered unless greater flexibility is provided for standard well locations and provision is made for increasing the density greater than one well per 640-acre spacing unit.

Approval of the application will afford the applicants and all affected interest owners the opportunity to produce its just and equitable share of the hydrocarbons in these formations and will otherwise prevent waste and protect correlative rights.

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- MORROW GAS PRODUCING
- MORROW GAS DEPLETED
- MORROW PENETRATION (DRY)

CEMETERY MORROW
 INDIAN BASIN MORROW

BEFORE THE
 OIL CONSERVATION DIVISION
 SANTA FE NEW MEXICO
 MARATHON OIL CO. EXHIBIT NO. _____
 CASE NO. _____

R 24 E 22

MARATHON OIL COMPANY	MEMORANDUM
INDIAN BASIN FIELD AREA	
MORROW PRODUCTION	
DATE: _____	BY: _____
CHECKED BY: _____	APPROVED BY: _____
DATE OF FILE: _____	FILE NO.: _____

MARATHON OIL COMPANY, OIL FIELD

EXHIBIT

A

PROPOSED EVIDENCE

APPLICANTS

WITNESSES	EST. TIME	EXHIBITS
Denise Mruk (geologist)	30-45 Min	est. 4-6
Ron Folse (PE)	60 Min	est. 10
Don Miller (geologist)	20 Min	est. 3
S. A. Krueger (PE)	20 Min	est. 2

PROCEDURAL MATTERS

None at this time.

KELLAHIN AND KELLAHIN



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