

**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. 12032
Order No. R-11066**

**APPLICATION OF KCS MEDALLION
RESOURCES, INC. FOR AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 20, 1998, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 14th day of October, 1998, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, KCS Medallion Resources, Inc., seeks approval to drill its PDM Well No. 1 at an unorthodox gas well location 860 feet from the South line and 660 feet from the West line (Unit M) of Section 16, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico, to test the Morrow formation, Turkey Track-Morrow Gas Pool.

(3) The applicant proposes to dedicate the W/2 of Section 16 to this subject well forming a standard 320-acre gas spacing and proration unit for the pool.

(4) The proposed well is located within the Turkey Track-Morrow Gas Pool which is currently governed by Division Rule No. 104.C(2)(b), which requires standard 320-acre gas spacing and proration units with wells to be located no closer than 660 feet from the nearest side boundary nor closer than 1650 feet from the nearest end boundary of the spacing unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary.

(5) Southwest Royalties, Inc. (SW Royalties), which currently operates a Turkey Track- Morrow Gas Pool well in Section 17, Township 19 South, Range 29 East, NMPM, the Union Texas State Well No. 1 (API No. 30-015-21210), located at a standard gas well location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 17, appeared at the hearing in opposition to the application.

(6) At the request of SW Royalties, the record, evidence and testimony presented in Case No. 11925 and Case No. 11925 de novo were incorporated in this case.

(7) In Case No. 11925, heard by the Division on February 19, 1998, KCS Medallion Resources, Inc. sought approval to drill its PDM Well No. 1 at an unorthodox gas well location 860 feet from the South line and 660 feet from the West line (Unit M) of Section 16 to test the Morrow formation, Turkey Track-Morrow Gas Pool. The S/2 of Section 16 was to be dedicated to the well forming a standard 320-acre gas spacing and proration unit. SW Royalties, being the affected offset operator to the west in Section 17, appeared at the hearing and presented evidence and testimony in opposition to the application.

(8) By Order No. R-10983 issued in Case No. 11925 on May 7, 1998, the Division authorized KCS Medallion Resources, Inc. to drill its PDM Well No. 1 at its proposed unorthodox location subject to a production penalty in the Morrow formation of 60 percent, with that penalty to be applied against the well's ability to produce into a pipeline as determined from semi-annual deliverability tests.

(9) Pursuant to the application of KCS Medallion Resources, Inc., Case No. 11925 was heard de novo by the Oil Conservation Commission on July 16, 1998. By Order No. R-10983-A issued on July 30, 1998, the Oil Conservation Commission authorized the applicant to drill its PDM Well No. 1 at its proposed unorthodox location subject to a production penalty in the Morrow formation of 60 percent, and subject to a minimum allowable of 1.0 MMCFG per day for 2.33 years (28 months) from the date the well is completed.

(10) By letter dated August 20, 1998, the Division and Commission, upon the request of KCS Medallion Resources, Inc., vacated Division Order Nos. R-10983 and R-10983-A.

(11) The PDM Well No. 1 is standard with respect to the distance from the side boundary of its spacing unit (660 feet from the West line of Section 16); however, the well is unorthodox with respect to the distance from the end boundary of its spacing unit (860 feet from the South line of Section 16).

(12) The geologic evidence and testimony presented by the applicant in this case indicates that:

- a) the primary objective of the subject well is the three channel sands that comprise the interval designated by the applicant as the Middle Morrow; these channel sands trend north northwest - south southeast in this general area and are thin, lenticular and not continuous over long distances;
- b) there are four key wells with Middle Morrow gas production within this general area: (i) the aforementioned SW Royalties Union Texas State Well No. 1 in Unit N of Section 17, which is currently producing at a rate of 376 MCFGD from the S/2 of Section 17, with cumulative total production in the last 24 years of approximately 5.2 BCF of gas and 64,000 barrels of condensate; (ii) the Gruy Petroleum Management Company's Parkway State "17" Com. Well No. 1 (**API No. 30-015-24897**) (formerly owned by Burlington) in Unit G of Section 17, which has produced a total of 2.0 BCF of gas and 20,000 barrels of condensate since 1985 with a current rate of production of approximately 369 MCFGD; (iii) the Burlington Oil & Gas Resources Company State "16" Com Well No. 1 (**API No. 30-015-22692**) located in Unit F of Section 16 which produced a total of 1.5 BCF of gas and 16,200 barrels of condensate from the N/2 of Section 16 between February, 1979 and December, 1995; and (iv) the Burlington Oil & Gas Resources Company State "16-A" Com Well No. 1 (**API No. 30-015-22924**) located in Unit O of Section 16, which produced a total of 325 MMCF of gas and 3,700 barrels of condensate from the S/2 of Section 16 between September, 1979 and November, 1986 (this well was deemed "noncommercial" by KCS);
- c) there are two additional wells offsetting the proposed PDM Well No. 1: the UMC Petroleum Corporation Parkway Unit Well No. 9 in Unit G of Section 21, and the dry and abandoned Petroleum Corporation Parkway West Unit Well No. 4 in Unit C of Section 20, both in Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico. Both of these wells penetrated the Morrow formation, but neither well was productive;
- d) the target Middle Morrow sands are present, but not well developed within the SE/4 of Section 16. The Burlington Oil & Gas Resources Company State "16-A" Com Well No. 1 cumulatively produced a total of 325 MMCFG and 3,700 barrels of condensate from stray sand stringers within the Middle Morrow interval;

- e) the Burlington Oil & Gas Resources Company State " 6" Com Well No. 1 cumulatively produced approximately 1.5 BCF of gas and 16,200 barrels of condensate from one or more of the target Middle Morrow sands within the N/2 of Section 16; and
- f) the proposed unorthodox gas well location is necessary:
 - i) in order to move away from the NW/4 of Section 16, which has experienced prior drainage in the target Middle Morrow interval from the aforesaid State "16" Com Well No. 1;
 - ii) in order to move away from the SE/4 of Section 16 due to sand thinning and poor reservoir quality in the target Middle Morrow interval within this quarter section; and
 - iii) in order to penetrate the target Middle Morrow interval in an area of greater net sand thickness.

(13) The applicant presented land testimony which indicates that:

- a) with the exception of Mallon Resources (Mallon), all of the interest owners in Section 16 have agreed to re-orient the spacing unit for the PDM Well No. 1 from the S/2 to the W/2;
- b) within a S/2 well dedication, Mallon would not own any interest in the PDM Well No. 1. Within a W/2 well dedication, Mallon is the owner of approximately 7.8125 percent interest;
- c) negotiations are ongoing with Mallon who has expressed a full willingness to work with the applicant; and
- d) in the event Mallon does not voluntarily agree, its interest is subject to either joinder or non-consent under the terms of an existing JOA for this acreage.

(14) The PDM Well No. 1 is encroaching towards the N/2 of Section 21, which acreage is operated by Ocean Energy Inc. The applicant presented as evidence a waiver of objection to the proposed unorthodox gas well location from Ocean Energy Inc.

(15) Within a W/2 spacing unit, the PDM Well No. 1 is not encroaching towards the S/2 of Section 17, which acreage is operated by SW Royalties.

(16) The evidence and testimony presented by the applicant indicates that the proposed W/2 spacing unit for the PDM Well No. 1 appears to be more appropriate than a S/2 spacing unit in terms of the reservoir orientation within the target Middle Morrow sand intervals.

(17) The geologic evidence presented by the applicant indicates that the proposed unorthodox gas well location is necessary in order to efficiently drain the remaining gas reserves within the W/2 of Section 16.

(18) SW Royalties requested that a production penalty be assessed against the applicant's PDM Well No. 1 in order to protect its correlative rights.

(19) The production penalty assessed against the PDM Well No. 1 in Case No. 11925 and Case No. 11925 de novo was based upon the encroachment of the well towards the acreage owned by SW Royalties in the S/2 of Section 17.

(20) Within a W/2 spacing unit orientation, there is no encroachment from the PDM Well No. 1 towards SW Royalties' acreage in Section 17 and, therefore, there is no basis for the assessment of a production penalty on the well.

(21) Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pool and will otherwise prevent waste and protect correlative rights.

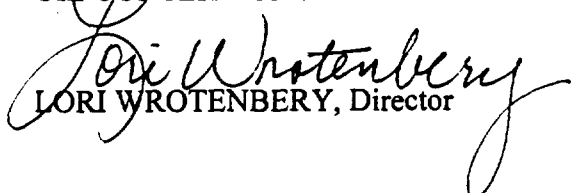
IT IS THEREFORE ORDERED THAT:

(1) The applicant, KCS Medallion Resources, Inc., is hereby authorized to drill its PDM Well No. 1 at an unorthodox gas well location 860 feet from the South line and 660 feet from the West line (Unit M) of Section 16, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico, to test the Morrow formation, Turkey Track-Morrow Gas Pool. The W/2 of Section 16 shall be dedicated to the subject well forming a standard 320-acre gas spacing and proration unit for that pool.

(2) 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


LORI WROTENBERY, Director