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JASON KELLAHIN (RETIRED 1991)

December 17, 2001

HAND DELIVERED

Mr. Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

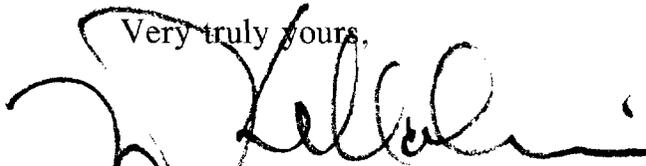
DEC 17 2001

Re: NMOCD Case 12776
Application of OXY USA WTP Limited Partnership
for Discovery Allowable, Special Pool Rules

Dear Mr. Stogner:

On behalf of the applicants, please find enclosed a proposed order for consideration in this case which was heard on November 12, 2001. I also have enclosed a wordperfect 5.1 diskette containing this draft order.

Very truly yours,



W. Thomas Kellahin

cc: OXY USA WTP Limited Partnership
Attn: Richard E. Foppiano

**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. 12776
Order No. R-**

**APPLICATION OF OXY USA WTP LIMITED
PARTNERSHIP FOR A DISCOVERY OIL
ALLOWABLE, POOL CREATION AND ADOPTION
OF SPECIAL POOL RULES FOR THE WEST ATOKA
UPPER PENNSYLVANIAN POOL,
EDDY COUNTY, NEW MEXICO**

**OXY'S PROPOSED
ORDER OF THE DIVISION**

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on November 16, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of December, 2001, 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) OXY USA WTP Limited Partnership ("OXY") has drilled its Engelbert Well No. 1, located 1980 feet from the South line and 660 feet from the East line (Unit I) of Section 15, Township 18 South, Range 25 East, NMPM, Eddy County, New Mexico.

(3) The well was permitted and drilled with the expectation it would be a gas well in the West Atoka-Upper Pennsylvanian Gas Pool which is located in Section 14 and other sections in T18S, R25E. However, after drilling, it tested for approximately 408 BOPD and 545 Mcf of gas per day for production from the Cisco interval of the Upper Pennsylvanian formations.

(4) OXY seeks a determination that this well constitutes a "new oil discovery."

(5) Based upon this discovery, OXY seeks the creation of a new oil pool to be designated the West Atoka Upper Pennsylvanian Pool which shall be defined as all of the Upper Pennsylvanian formations as identified on the log of the discovery well, the top of which is located at 6665 feet and the bottom of which is located 7900 feet with an initial pool boundary consisting of:

TOWNSHIP 18 SOUTH, RANGE 25 EAST
Section 15: SE/4

(6) In addition, OXY requests the adoption of the following Special Rules and Regulations for this pool:

- (a) 160-acre oil spacing and proration units;
- (b) with no more than one producing well for each 160-acre spacing or proration unit;
- (c) well locations not closer than 660 feet of the outer boundary of a spacing or proration unit nor closer than 10 feet to any interior governmental quarter-quarter section line;
- (d) that each oil well completed or recompleted in the Upper Pennsylvanian formations within one mile thereof, shall be spaced, drilled operated and produced in accordance with these special rules.

(7) 160-acre oil spacing and proration units and the limit of no more than one well per unit:

- (a) will prevent the drilling of unnecessary wells and will protect correlative rights and provide for the orderly development of the reservoir;

(b) will expedite the orderly development of the pool by the drilling of the fewest necessary wells to define the probable limits of the Pool; and

(c) 160-acre spacing units are the most appropriate sized spacing units for the Pool;

(8) Based upon data from the well, OXY presented geologic evidence which demonstrated that:

(a) the pool is both horizontally and vertically separated from any other common source of supply;

(b) while the discovery well only produces from the Cisco interval, the management of this pool is best served by including vertical limits from the top of the Cisco-Canyon located at _____, top the top of the Strawn formation at _____ feet as shown on the log of the discovery well.

(c) the pool has sufficient horizontal continuity to provide the geologic opportunity to space wells on 160-acre spacing units thereby avoiding the drilling of unnecessary wells.

(9) Based upon data from the well, OXY presented petroleum engineering evidence which demonstrated that:

(a) the pool is a solution gas drive reservoir with no water drive, and no primary or secondary gas cap;

(b) production step rate tests on the discovery well demonstrate that wells can be produced at rates up to 408 barrels of oil per day with little affect on the producing GOR which is consistently below 2,000 cubic feet of gas per barrels of oil;

(c) a pressure build up test demonstrates that the permeability is approximately 8.99 MD which creates the opportunity for drainage of 160-acre by a single wellbore;

(d) production from this carbonate reservoir is likely to be enhanced by natural fracturing which creates the opportunity for drainage of 160-acre by a single wellbore;

(e) there is an estimated 43,215 barrels of oil to be recovered within the SE/4 of this section which will economically support the drilling of only one well per 160-acre spacing unit;

(f) analysis demonstrates that it is not economic to wells on less than 160-acre spacing;

(g) in accordance with Division Rule 509, discovery oil allowable should be 49 BOPD.

(10) OXY presented evidence which demonstrated that correlative rights will not be affected by the adoption of the proposed special rules because the ownership is common for the S/2 of Section 15.

(11) Oxy provided notice in accordance with Division rules 1207 and no party appeared in opposition to the granting of this application.

(12) The Division **finds that:**

(a) OXY is the only operator in the Pool or of Cisco oil wells within one mile of the pool and in accordance with Division notice rules, Rule 1207.A(4)(b), notification of this application is not required to any other operator.

(b) approval of this application will not cause the waste of reservoir energy, reduce ultimate recovery or impair correlative rights.

(13) These special rules should be made effective, retroactive, to the date of first production from the discovery well which was August 23, 2001.

IT IS THEREFORE ORDERED THAT:

(1) Effective September 1, 2001, the Temporary Special Rules and Regulations for the West Atoka-Upper Pennsylvanian Pool shall be as follows:

RULE 1: Each well completed in or recompleted in the Upper Pennsylvanian Pool, or in the Cisco-Canyon formations, within one mile thereof shall be spaced, drilled, operated, and produced in accordance with the special rules hereinafter set forth.

RULE 2: Each well completed or recompleted in the pool shall be located on a unit containing 160-acres more or less which consists of a single governmental quarter section;

RULE 3: There shall be no more than one producing well for each 160-acre spacing or proration unit;

RULE 4: Each well shall be located not closer than 660 feet to the outer boundary of a spacing or proration unit nor closer than 10 feet to any interior governmental quarter-quarter section line;

(2) OXY USA WTP Limited Partnership's Engelbert Well No. 1 is hereby designated the discovery well for this pool and assigned a discovery allowable of 35,870 barrels of oil. Pursuant to Division Rules 509.E and 509.F, this discovery allowable shall be assigned at 7:00 am on January 1, 2002 and shall be produced over a two year period at a rate not to exceed 49 BOPD.

(3) This cases shall be reopened at an examiner hearing in July, 2003 at which time the operators in the pool shall appear and show cause why the temporary special rules established by this order should not be rescinded.

(4) Jurisdiction of this cause is 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

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