



State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

April 22, 1994

RAY POWELL, M.S., D.V.M.
COMMISSIONER

(505) 827-5760
FAX (505) 827-5766

State of New Mexico
Oil Conservation Division
P.O. Box 2088
State Land Office Bldg.
Santa Fe, New Mexico 87504
Attn: Mr. Michael E. Stogner

Case 10998

Re: Hallwood Energy Corporation
Bass Federal Well No. 2
660' FSL & 1300' FEL, Section 30, T-20-S, R-33-E
Lea County, New Mexico
(Non-Standard Location & Non-Standard Proration unit)

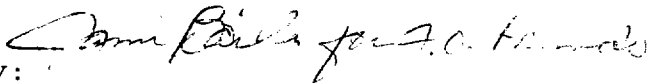
Dear Mr. Stogner:

It is our understanding that Hallwood Energy Corporation initially proposed to submit for approval to the Oil Conservation Division (OCD) a non-standard location (NSL) request for the above mentioned well in the undesignated Hat Mesa-Delaware pool with the southeast quarter of the southeast quarter of Section 30, Township 20 South, Range 33 East, dedicated to the well. As is evident from the spot location of the well, we feel this proposal would not be favorable to the State with respect to drainage and/or correlative rights if a NSL is approved along with a standard (40 ac.) proration unit. Therefore, please accept this correspondence as an objection to OCD approval of the above mentioned proposal.

On April 6, 1994, additional information was received from Hallwood Energy Corporation in which they have now requested that in addition to the NSL request, a non-standard proration unit (NSP) of eighty (80) acres, encompassing the south half of the southeast quarter of Section 30, Township 20 South, Range 33 East, be dedicated to the well. Our initial objection entailed concern with drainage from the state acreage in the southwest quarter of the southeast quarter of the above mentioned Township and Range and therefore this new proposal from Hallwood, involving an eighty (80) acre proration unit, eliminates this concern. Therefore, the State Land Office has no objection to OCD approval of a NSL and a NSP unit of 80 acres for the above mentioned well.

If we may be of further service, please contact Jeff Albers at
(505) 827-5759.

Sincerely,
Ray Powell, M.S., D.V.M.
Commissioner of Public Lands


By:
Floyd O. Prando, Director
Oil, Gas & Minerals Division
(505) 827-5744
rp/fop/jja

Hallwood Energy Companies

4582 South Ulster Street Parkway Stanford Place III Suite 1700 Post Office Box 378111
Denver, Colorado 80237 (303) 850-7373

January 14, 1994

State of New Mexico-Oil Conservation Division
P.O. Box 1980
Hobbs, NM 88240
ATTN: Donna Pitcher

Re: **Supplemental Information**
Hallwood - Bass Federal #2
SE SE Sec. 30-T20S-R33E
Lea County, New Mexico

Dear Ms. Pitcher:

As discussed in our telephone conversation on January 12, 1994 Hallwood Petroleum is providing you with the additional requested information for the captioned well. This information consists of the following:

- 1) A C-102 showing the 40 acres attributed to the well, being the SE of the SE quarter.
- 2) A request for administrative approval to amend the original NSL (Non-Standard Location) R-Order #~~4749~~ to 4759 ^{ap} include the Delaware formation. Although we could not find a copy of this original order which approved the non-standard location (660' FSL X 1300' FEL) for the Morrow formations we did find the application and hearing summary (copies attached). Because of our successful recompletion we would like that order amended to now include the Delaware formation and based on my conversation with you this could be handled by this letter request.

January 14, 1994
State of New Mexico
Oil Conservation Division
Page 2

It is also our understanding that the well name will change slightly now from the Bass Federal Com #2 to the Bass Federal #2.

Thank you very much for your assistance and cooperation on this issue. Should you need any more information please contact our Denver office at the phone numbers listed below.

Sincerely,

HALLWOOD PETROLEUM, INC.



Kevin E. O'Connell
Drilling & Production Manager
Western District

Direct Work Phone: (303) 850-6303
Switchboard: (303) 850-7373
Tollfree: 1-800-382-4833 (ext.303)
Fax: (303) 850-6530 or 850-6290

Enclosures

cc: Bass Federal #2 Well File
Connie Heath
Eva Kardas
Janet Defur

KEO\#182.pp

Submit to Appropriate District Office
 State Lease - 4 copies
 Fee Lease - 3 copies

State of New Mexico
 Energy, Minerals and Natural Resources Department

Form C-102
 Revised 1-1-89

OIL CONSERVATION DIVISION

DISTRICT I
 P.O. Box 1980, Hobbs, NM 88240

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT II
 P.O. Drawer DC1, Artesia, NM 88210

DISTRICT III
 1000 Rio Brazos Rd., Aztec, NM 87410

WELL LOCATION AND ACREAGE DEDICATION PLAT

All Distances must be from the outer boundaries of the section

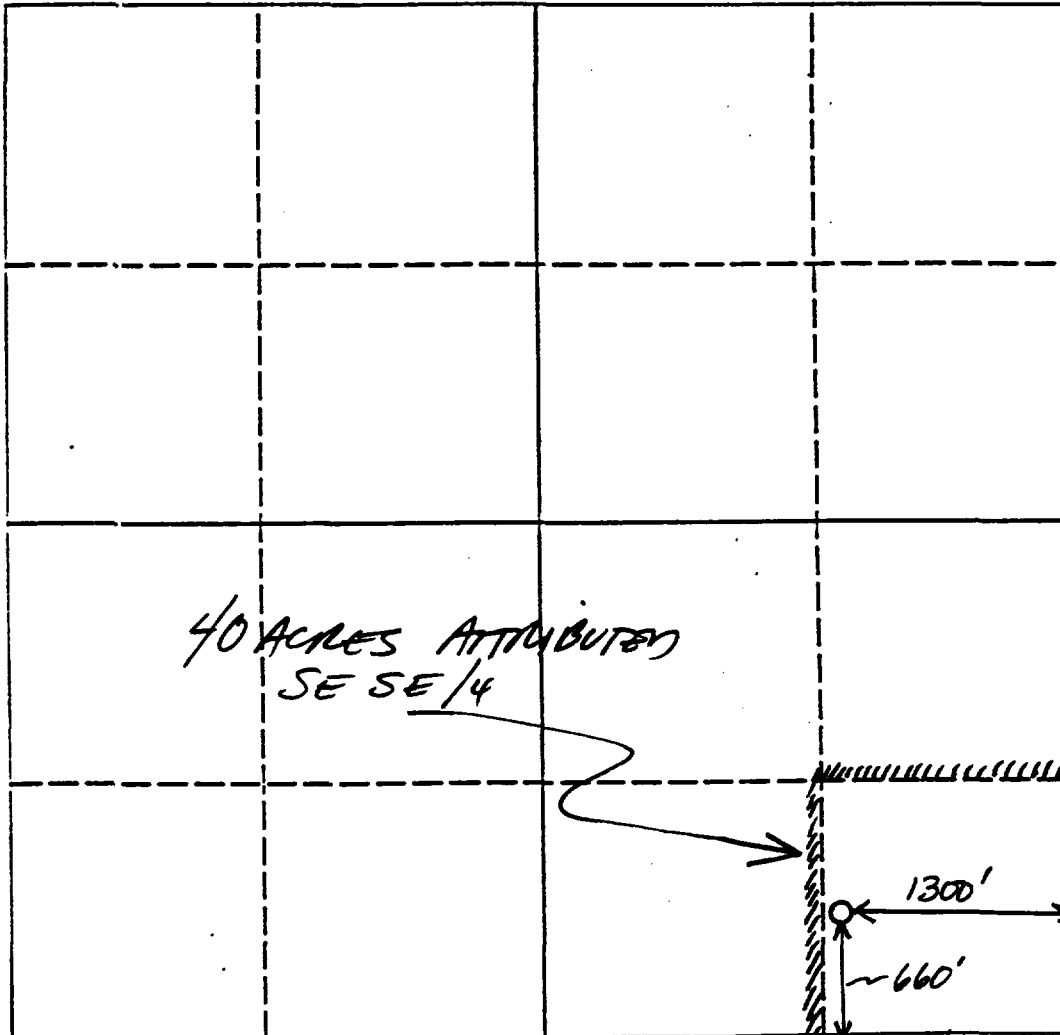
Operator Hallwood Petroleum, Inc.			Lease Bass Federal			Well No. 2		
Unit Letter P	Section 30	Township 20S	Range 33E	County NMPM		Lea		
Actual Footage Location of Well: 660 feet from the South line and 1300 feet from the East line								
Ground level Elev. 3,599'		Producing Formation Delaware			Pool Hat Mesa - Delaware		Dedicated Acreage: (+) Acres	

- Outline the acreage dedicated to the subject well by colored pencil or hatchure marks on the plat below.
- If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
- If more than one lease of different ownership is dedicated to the well, have the interest of all owners been consolidated by communitization, unitization, force-pooling, etc.?

Yes No If answer is "yes" type of consolidation _____

If answer is "no" list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interest, has been approved by the Division.



OPERATOR CERTIFICATION

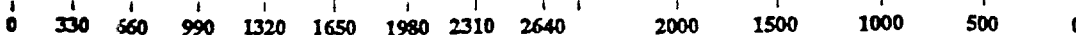
I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Signature
 Kevin E. O'Connell
 Printed Name
Kevin E. O'Connell
 Position
 Drlg. & Prod. Manager
 Company
 Hallwood Petroleum, Inc.
 Date
 January 14, 1994

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes actual surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.

(Not Required)
 Date Surveyed
 Signature & Seal of Professional Surveyor
 Certificate No.



BEFORE THE
OIL CONSERVATION COMMISSION OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF BELCO PETROLEUM CORPORATION FOR
APPROVAL OF A NON-STANDARD GAS PRO-
RATION UNIT AND UNORTHODOX WELL
LOCATION, SOUTH SALT LAKE FIELD,
LEA COUNTY, NEW MEXICO

A P P L I C A T I O N

COMES NOW BELCO PETROLEUM CORPORATION and applies to the Oil Conservation Commission for approval of a non-standard gas proration unit and approval of an unorthodox well location in the South Salt Lake Field, Lea County, New Mexico, and in support thereof would show the Commission:

1. Applicant proposes to drill a well to the Morrow formation in the South Salt Lake Field, the well to be located 660 feet from the South line, and 1300 feet from the East line of Section 30, Township 20 South, Range 33 East, N.M.P.M., to be dedicated to a unit composed of the E/2 SW/4 and SE/4 of Section 30, and the N/2 NE/4 of Section 31, all in Township 20 South, Range 33 East.

2. Applicant proposed the non-standard unit for the reason the W/2 SW/4 of Section 30, is within the Little Eddy Unit and within a participating area for Morrow production; all of Section 31 with the exception of the N/2 NE/4 is also within the Little Eddy Unit, and this 80-acre tract will be isolated and without an opportunity to participate in production unless the proposed non-standard unit is approved.

3. Applicant proposes the unorthodox well location in order to avoid drilling on an existing potash lease which, in addition to other lands, covers the W/2 SE/4 of Section 30, and the N/2 NE/4 of Section 31.

WHEREFORE applicant requests that this application be set for hearing before the Commission's duly appointed examiner, and that after notice and hearing as required by law the Commission enter its order approving the non-standard unit and unorthodox well location as prayed for.

Respectfully submitted:

BELCO PETROLEUM CORPORATION

By

KELLAHIN & FOX

P. O. Box 1769

Santa Fe, New Mexico 87501

ATTORNEYS FOR APPLICANT

WT

VADA - PENNSYLVANIAN POOL
Compulsory Pooling (Case 5140 - Dismissed)

Dismissed was the application of Pierce and Dehlinger seeking an order pooling all mineral interests in the Vada-Pennsylvanian Pool underlying the NW/4 of Sec. 24, T-9-S, R-33-E, Lea County, to be dedicated to the King Resources No. 1-A Sheridan well, Unit C, Sec. 24.

VADA - PENNSYLVANIAN POOL
Determination of Reasonable Well Costs (Case 4958 - Reopened - Dismissed)

Dismissed was the application of Pierce and Dehlinger seeking the determination of reasonable well costs for the No. 1 Sheridan well, Unit M, Sec. 13, T-9-S, R-33-E, Vada-Pennsylvanian Pool, Lea County.

CATCLAW DRAW-MORROW GAS POOL AREA
Compulsory Pooling (Case 5187 - Dismissed)

Dismissed was the application of Inexco Oil Company seeking an order pooling all mineral interests in the Pennsylvanian formation underlying Sec. 17, T-21-S, R-26-E, Eddy County, adjacent to the Catclaw Draw-Morrow Gas Pool, to be dedicated to a well at a standard location.

DRINKARD AND BLINEBRY POOLS
Downmole Commingling (Case 5188 - Continued to March 27)

Continued to March 27 is the application of Continental Oil Company seeking to commingle Drinkard and Blinebry production in the well bore of its No. 8 Lockhart B-1 well located in Unit H, Sec. 1, T-22-S, R-36-E, Lea County.

* * * * *

COMMISSION HEARING HELD - MARCH 15 - SANTA FE

The New Mexico Oil Conservation Commission met in Morgan Hall, State Land Office, Santa Fe, 9 a.m., Friday, March 15, 1974, to hear one case ahead of which it held a discussion on the "Open Meetings" bill enacted by the recent session of the State Legislature. Present for the discussion of the bill were all three commissioners: Chairman L. R. Trujillo, Land Commissioner Alex Armijo, and Secretary-Directory A. L. Porter. For the hearing on Case 5193, Porter and Trujillo remained.

Porter read the addition to the State Laws, Chapter 91, Section 1, which he followed with a statement of his own. The announcement was made at this, the first official meeting, since the bill was signed into law February 28, 1974.

Armijo said the law as passed "is kind of ridiculous" as it does not define what constitutes a meeting. He noted that he could meet casually and hold a conversation with one of his staff or a member of the Commission and it might well be termed a meeting, under the new law, for which notice should have been given in advance to the public.

Porter urged industry members to attend the policy meeting which the Commission will hold shortly and have its say on recommended guidelines. He announced the meeting in the form of a motion, which was passed.

The copy of the new law is included in its entirety elsewhere in this report.

SOUTH SALT LAKE FIELD
Drilling Permit in Oil-Potash Area (Case 5193)



Belco Petroleum Corporation requested a permit in the South Salt Lake Field to allow it to drill its proposed No. 2 Bass-Federal Pennsylvanian well at an unorthodox location 660 feet from the South and 1300 feet from the East lines of Sec. 30, T-20-S, R-33-E, Lea County, within the boundaries of the Potash-Oil Area established by Order R-111-A. The unorthodox location was previously approved by Order R-4699 but objection was entered by Kerr McGee Corporation, owner of leases a few miles away and with an expressed interest in mining Sec. 30 for potash.

Appearing as witnesses for Belco were Omar Brown, landman, Midland; William J. Henry, consulting geologist, Midland; Glen Cope, consulting engineer, Midland; H. L. Kendrick, El Paso Natural Gas Company, El Paso; Kenneth McPeters, Moranco Drilling, Hobbs; W. J. Holbart, Roland Drilling U.S., western division manager; and George Warnock, consulting mining geologist, Albuquerque.

Kerr McGee presented one witness, Robert H. Lane, engineering superintendent, Carlsbad. Its case was not heard until Saturday morning. Attorneys for Kerr McGee were John Robb and Mark Adams, both from Albuquerque.

Omar Brown testified that Belco has a number of Morrow gas wells in the pool but additional development is needed in the S/2 of Sec. 30 to prevent drainage that is now taking place and permit gas to be recovered under this to protect correlative rights and prevent waste. Teledyne is the owner of record of the potash lease under Sec. 30 and Brown said nothing had been heard from them in regard to the well location.

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Drilling Permit in Oil-Potash Area (Case 5193) (Continued)

Based on other wells on similar strike on structure Brown said the No. 2 well should pay royalty owners (state, federal, and fee), about \$15,988 per month.

Brown noted that the Teledyne lease was issued in 1936. The nearest known Kerr McGee lease, said Brown, is in Sec. 25.

Belco attorney Jason Kellahin observed that this application differs from other applications of this type in that there is only one potash lease in the gas pool formed in 1961 and the unorthodox location was approved without objection from the owner of the one lease in Sec. 30.

This is a development well location and not a wildcat, said Brown.

Robb, representing Kerr McGee, wanted to know if Brown knew that Teledyne is shut down and inoperative. Brown replied he knew there was some problem but didn't know they were inoperative.

Henry, geologist for Belco, presented exhibits showing the structural trend through wells near the proposed No. 2 well, which he said should be a prolific well possibly encountering some sands not tapped in other wells. He described the Morrow producing interval as being composed of lenticular lenses which come and go throughout the area.

He said the pool was originally spaced on 160 acres but this was changed by OCC Order R-4600 to 320-acre spacing.

Robb asked Henry if any thought had been given to directionally drilling the well from a surface location 4000 to 5000 feet from the bottom hole location. Henry said he knew of no such drilling projects in the state, only whipstock drilling within a few hundred feet of the surface location. He felt the risk of damage to the formation, to pipe and possible loss of the hole, were too great to even consider such a venture.

Cope, engineer consultant for Belco, referred to studies he had made of the pool. The No. 1 CM well drilled by Texaco in 1961 produced at a very good rate and in 1969 production increased to more than 110 million cubic feet of gas per month, which did not reflect its true productive capacity but the limited market demand. Production started to decline in 1971 and the shut-in tubing pressure has declined to the point where the well cannot produce much longer. It is on strike with the No. 1 Bass-Federal well that has been produced for only 5-1/2 months. It was estimated this well is equal to, or better than, the first well. A seven-year life was estimated for the No. 1 Bass-Federal well.

Cope said the location in Sec. 30 is necessary, due to the lenticular nature of the sands, for the best development of the Morrow. He said the No. 1 Bass-Federal well is draining some of the gas from under the S/2 of Sec. 30.

The OCC required casing cementing program for the Potash-Oil Area would be adhered to, said Cope, and it has been successful in other potash-oil areas so there is no reason it should not be satisfactory here. The same type of casing cementing and plugging program has been used in several other states, said Cope.

Kendrick, for El Paso, took the stand prepared to give testimony on the need of all the gas produced in this area by El Paso Natural Gas Company but Robb was willing to stipulate to this and Kendrick did not testify beyond this statement.

McPeters, Moranco Drilling, said of his company's seven rigs, six are currently busy in the Carlsbad area. He said he would not consider taking a contract on directionally drilling a well from a distance of 4000 or 5000 feet, as suggested by Robb, to the bottom-hole location in Sec. 30. It takes about 65 days to drill a straight hole to the Morrow here and a directionally drilled well would take 3 to 4 times that long if all went well. He said he would not even drill a 1000 foot deviated hole here due to the high risk and scarcity of pipe. He said there would be innumerable other problems.

Holbart, Roland Drilling, said his firm would not take such a contract either, agreeing with McPeters on the hazards.

Warnock, mining consultant, said he had conducted studies of the area with the core hole and other data available. After long and detailed testimony, based largely on exhibits prepared by him, Warnock concluded that Sec. 30 had not seen any potash mining activity to date, and in his opinion it never would. He discussed economics, quality of ore in core holes, the six mile distance from the Kerr McGee mine shaft to this area and the slow development of Kerr McGee to date. For investment purposes Sec. 30 would have to be considered barren since no core holes have been taken in it, said Warnock.

The hearing was adjourned at five p. m. Friday until 8:30 a. m. Saturday morning.

Kerr McGee's witness, Robert H. Lane, testified that Kerr McGee estimated \$11,510,708 worth of ore at a price of \$34 per ton underlay a radius of 2100 feet around the proposed well. It was established through cross-examination of the witness by Jason Kellahin that Kerr McGee does not own any leases in Sec. 30 or anywhere near the proposed well. The acreage immediately under the Belco proposed well is not leased to anyone at this time for the mining of potash.

Drilling Permit in Oil-Potash Area (Case 5193) (Continued)

It was also established that no core holes have ever been recorded in Sec. 30, but the W/2 of the section was mined out some years ago by International Potash Corporation.

Lane said Kerr McGee plans to obtain the Teledyne lease under the W/2 of the E/2 of Sec. 30 and the area around and under the proposed well for potash mining. It is convinced that a commercial ore body remains under the E/2 of Sec. 30.

If the well is permitted at the proposed location, said Lane, 472,000 final product tons of ore would be wasted and he cited dangers of methane gas seeping into the formation that would cause expensive and hazardous mining conditions when encountered.

A letter from Roy C. Williamson was introduced, but was not allowed into the record due to Williamson not being present for cross-examination. The same was true of lengthy reports offered on the area.

Lane indicated that Kerr McGee could be mining the ore under Sec. 30 within ten years. He referred to oil seep found in another mine, which he said came from a well, or wells in a field near the mine. Problems caused by oil and gas development ahead of potash development could cost as much as \$2 million to overcome, said Lane. He said the potash deposit would start to subside when about 35 per cent of the ore was mined and it should be settled out in about five years after mining is discontinued. Drilling for oil and gas could be conducted at that time as the potash tends to "flow" as subsidence sets in, or the well could be drilled from a deviated surface location to the selected bottom-hole location.

No answers could be given on the economics of mining the potash, only the estimated gross sales figure could be supplied.

In summarizing the argument, Robb said, "The main issue is: is there a commercial deposit of potash ore under the proposed location?" If there is, he said, it should be clear the risks are unacceptable from a conservation standpoint.

In his closing statement Kellahin said this was a most unusual case in that the applicant was arguing with opposition lacking any kind of interest in the area in question; that Kerr McGee is interfering with the orderly development of oil or gas deposits in violation of established rules. Further, that no evidence had been given to show that ore of any kind underlies Sec. 30. He referred to three core holes drilled in other sections which were used to triangulate an area where commercial potash deposits should be encountered in Sec. 30. He noted that one hole was "barren" as far as commercial ore was concerned. Kellahin said no methane gas has ever been found in this area so there is no reason to assume any should penetrate the potash zone.

Kellahin concluded that "Kerr McGee's whole opposition is based on speculation and not substance."

The hearing concluded at 3:30 p. m., Saturday.

A letter opposing the application was sent by Harroun and Haworth.

Letters and wires supporting Belco's application were received from Joe Peacock, Phillips Petroleum; Perry R. Bass; Tenneco; Atlantic Richfield; Richards, royalty owners, and Texaco Inc.

Robb introduced a letter from Teledyne which he said gave its objection to the proposed well location.

* * * * *

INCIDENTAL INFORMATION - NINA LEE DU HAIME

The IOCC summer meeting has been reset several times due to conflict with other activities but OCC Commissioner A. L. Porter says it is currently set for June 30, July 1, 2, 3, at Vail, Colorado..... Lt. Gov. Roberto Mondragon is expected to announce his candidacy for the Democratic nomination for Congress from the northern Congressional district at a press conference on Friday. That evening a party and dance will be held at the Civic Auditorium in Albuquerque to honor him..... Attorney General David Norvell has a carry-over campaign debt from his race for the U. S. Senate nomination (Democratic) in 1972 which the Justice Department says cannot be paid off by Norvell with his own funds because it would be illegal under the 1970 Campaign Practices Act, which limits the amount candidates can place into their own campaigns. He is exploring ways and means of raising the funds which must be paid by a committee..... Martin J. Molloy, a 24-year-old graduate student, has announced he will be the American Independent Party's candidate for New Mexico's First Congressional District, now represented by Representative Manuel Lujan, Jr. - Republican. Molloy, now working on a master's degree in urban economics, said he would work to combat inflation, shortages, tax loopholes and the deterioration of the dollar overseas..... The State's General Fund revenues have exceeded estimates so far this fiscal year by only 1.3 per cent, according to Robert Kirkpatrick, Director of Finance. Total collections during February were \$36.1 million, an increase of \$3.1 million, or 9.3 per cent, above the same month of 1973. For the first eight months of the current fiscal year, total general fund revenues were \$222.6 million, or 12.1 per cent more than in the same period of the preceding fiscal year. Kirkpatrick is confident advance estimates for the fiscal year will be met



State of New Mexico
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RAY POWELL, M.S., D.V.M.
COMMISSIONER

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SANTA FE, NEW MEXICO 87504-1148

April 22, 1994

State of New Mexico
Oil Conservation Division
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Attn: Mr. Michael E. Stogner

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(505) 827-5759.

Sincerely,
Ray Powell, M.S., D.V.M.
Commissioner of Public Lands

Sam Biles for F.O. Prando

By:
Floyd O. Prando, Director
Oil, Gas & Minerals Division
(505) 827-5744
rp/fop/jja