

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. 9582
Order No. R-8872

APPLICATION OF STRATA PRODUCTION
COMPANY FOR POOL CREATION AND
SPECIAL POOL RULES OR, IN THE
ALTERNATIVE, FOR POOL EXTENSION
AND SPECIAL POOL RULES, LEA COUNTY,
NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 1 and 15, 1989, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 28th day of February, 1989, 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.

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(2) The applicant, Strata Production Company, seeks the creation of a new pool for the production of oil from the Bone Spring formation comprising Lots 2 and 7 of Irregular Section 4, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, and for the promulgation of special rules and regulations therefor including provisions for 80-acre spacing and proration units and designated well location requirements. In the alternative, the applicant seeks to extend the Hat Mesa-Bone Spring Pool to include Lots 1, 2, and 7 of said Irregular Section 4 and for the promulgation of special rules and regulations for said pool including a provision for 80-acre spacing and proration units and designated well location requirements.

(3) The Hat Mesa-Bone Spring Pool was created by Division Order No. R-8826, dated December 22, 1988, and currently comprises the SW/4 of Section 33, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico, and is currently governed by General Rule 104 (C)(I) of the Division Rules and Regulations which require 40-acre spacing and proration units and designated well locations.

(4) The applicant is the operator of the New Mexico Federal Well No. 2 located 1980 feet from the North and East lines of said Irregular Section 4, Township 21 South, Range 32 East, NMPM, which was completed in the Bone Spring formation in November, 1988.

(5) The geologic evidence presented by the applicant indicates that the New Mexico Federal Well No. 2 is producing from the same common source of supply as the Gavilan Federal Well No. 1, the discovery well for the Hat Mesa-Bone Spring Pool which is also currently operated by the applicant.

(6) The horizontal limits of the Hat Mesa-Bone Spring Pool should be extended to include Lots 1, 2, 7, and 8 of said Irregular Section 4, Township 21 South, Range 32 East, NMPM, Lea County, New Mexico, in accordance with current Division pool extension procedures.

(7) The applicant further presented currently available volumetric data which indicates that the wells in the Hat Mesa-Bone Spring Pool should be capable of draining an area in excess of 40 acres.

(8) In order to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, prevent reduced recovery which might result from the drilling of too few wells and to otherwise protect correlative rights, temporary special rules and regulations providing for 80-acre spacing and proration units should be promulgated for the subject pool.

(9) The temporary special rules and regulations should also provide for restrictive well locations in order to assure orderly development of the pool and protect correlative rights.

(10) The applicant further requested at the time of the hearing that the special rules and regulations for the subject pool remain in effect for a period of three years.

(11) Temporary special rules and regulations should be established for the subject pool for a period of two years, which is sufficient time to allow the operators in the subject pool the opportunity to gather additional reservoir information to show that an 80-acre unit in the area can be efficiently and economically drained and developed by one well.

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(12) This case should be reopened at an examiner hearing in February, 1991, at which time the operators in the subject pool should be prepared to appear and show cause why the temporary pool rules for the Hat Mesa-Bone Spring Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) The Hat Mesa-Bone Spring Pool, previously created, defined, and described by Division Order No. R-8826, is hereby extended to include therein:

TOWNSHIP 21 SOUTH, RANGE 32 EAST, NMPM
Irregular Section 4: Lots 1, 2, 7, and 8

(2) Temporary Special Rules and Regulations for said pool are hereby promulgated as follows:

SPECIAL RULES AND REGULATIONS
FOR THE
HAT MESA-BONE SPRING POOL

RULE 1. Each well completed or recompleted in the Hat Mesa-Bone Spring Pool or in the Bone Spring formation within one mile thereof, and not nearer to or within the limits of another designated Bone Spring Pool, shall be spaced, drilled, operated, and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 80 acres, more or less, consisting of the N/2, S/2, E/2, or W/2 of a governmental quarter section being a legal subdivision of the United States Public Lands Survey, provided however, nothing contained herein shall be construed as prohibiting the drilling of a well on each of the quarter-quarter sections in the unit.

RULE 3. The Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit comprising one or more governmental quarter-quarter sections or lots, or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard proration unit (79 through 81 acres) shall be based on a depth bracket allowable of 355 barrels per day, and in the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

IT IS FURTHER ORDERED THAT:

(3) The locations of all wells presently drilling to or completed in the Hat Mesa-Bone Spring Pool or in the Bone Spring formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Hobbs district office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(4) Pursuant to Paragraph A. of Section 70-2-18, N.M.S.A. 1987 Comp., contained in Laws of 1969, Chapter 271, existing oil wells in the Hat Mesa-Bone Spring Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable until a non-standard spacing unit has been approved and, subject to said 60-day limitation, each well

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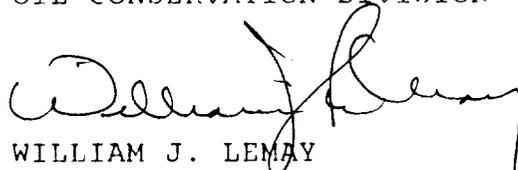
presently drilling to or completed in the Hat Mesa-Bone Spring Pool, or in its corresponding vertical limits within one mile thereof, shall receive no more than one-half of a standard allowable for said pool.

(5) This case shall be reopened at an examiner hearing in February, 1991, at which time the operators in the subject pool may appear and show cause why the temporary rules for the Hat Mesa-Bone Spring Pool promulgated herein should not be rescinded.

(6) 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



WILLIAM J. LEMAY
Director

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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. 9582(REOPENED)
ORDER NO. R-8872-A

**IN THE MATTER OF CASE 9582 BEING REOPENED
PURSUANT TO THE PROVISIONS OF ORDER NO. R-8872,
WHICH PROMULGATED TEMPORARY SPECIAL RULES AND
REGULATIONS FOR THE HAT-MESA BONE SPRING POOL,
LEA COUNTY, NEW MEXICO, INCLUDING A PROVISION FOR
80-ACRE PRORATION UNITS.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 21 and March 21, 1991, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 29th day of March, 1991 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) By Order No. R-8872, dated February 28, 1989 temporary Special Rules and Regulations were promulgated for the Hat Mesa-Bone Spring Pool, Lea County, New Mexico, establishing 80-acre spacing units for a period of two years.

(3) Pursuant to the provisions of said Order No. R-8872, this case was reopened to allow the operators in the subject pool to appear and show cause why the temporary Special Rules and Regulations for the Hat Mesa-Bone Spring Pool should not be rescinded.

(4) No operator in the subject pool appeared at either hearing to show cause why the Special Pool Rules for the Hat Mesa-Bone Spring Pool should not be rescinded at this time and the pool be governed by all applicable statewide rules for oil wells as promulgated by the "Rules and Regulations of the Oil Conservation Division."

(5) Division records indicate that currently only one well is marginally producing from said pool, the Strata Production Company Gavilon Federal Well No. 1 located 1980 feet from the South line and 660 feet from the West line (Unit L) of Section 33, Township 20 South, Range 33 East, NMPM, Lea County, New Mexico.

(6) It is not known at this time whether additional wells will be completed in the subject pool.

(7) The operators in the subject pool have not established that one well can efficiently and economically drain and develop 80 acres.

(8) The temporary Special Rules and Regulations for the Hat Mesa-Bone Spring Pool, promulgated by Division Order No. R-8872, should therefore be abolished.

IT IS THEREFORE ORDERED THAT:

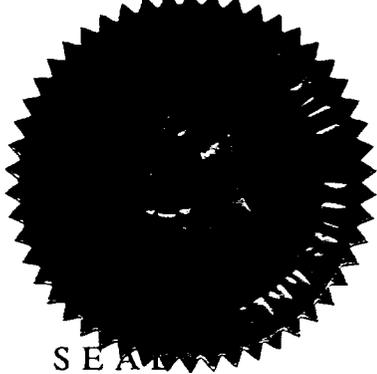
(1) The temporary Special Rules and Regulations governing the Hat Mesa-Bone Spring Pool, Lea County, New Mexico, promulgated by Order No. R-8872, are hereby abolished.

(2) All existing oil wells in the Hat Mesa-Bone Spring Pool shall have dedicated thereto 40 acres in accordance with General Rule 104.C. Failure to file new Forms C-102 with the Division dedicating 40 acres to a well within 60 days from the date of this order shall subject the well to cancellation of allowable.

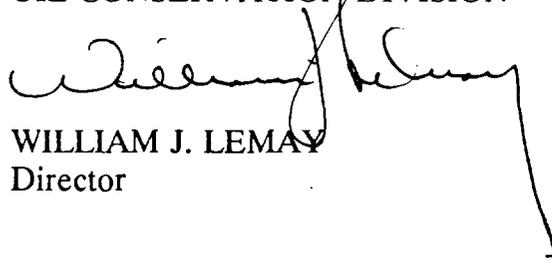
(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director