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April 24, 1989

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

RECEIVED

APR 24 1989

OIL CONSERVATION DIVISION

Re: Oil Conservation Division Case No. 9651
In the Matter of the Application of Sun Exploration and
Production Company for Amendment of Division Orders Nos.
R-8644-A and R-8734, Lea County, New Mexico

Dear Mr. LeMay:

On April 17, 1989 the Commission gave all parties an additional week within which to file post hearing memoranda.

Enclosed please find a proposed Order from Sun Exploration and Production Company which sets out Sun's argument and authority.

Your attention to this matter is appreciated.

Very truly yours,

John H Bemis

for/ WILLIAM F. CARR

WFC:mlh

Enclosure

cc w/enc: Karen Aubrey, Esq.
A. J. Losee, Esq.
Anne B. Tallmadge, Esq.
Lawrence D. Garcia, Esq.

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

RECEIVED
APR 18 1989
OIL CONSERVATION DIVISION
Case NO. 9651
Order No. R-_____

APPLICATION OF SUN EXPLORATION AND
PRODUCTION COMPANY FOR AMENDMENT
OF DIVISION ORDERS NOS. R-8644-A
AND R-8734, LEA COUNTY, NEW MEXICO.

SUN EXPLORATION AND PRODUCTION COMPANY'S
PROPOSED ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on April 17, 1989, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as (the "Commission").

NOW, on this _____ day of April, 1989, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) On July 14, 1988 the Commission consolidated and heard the applications of Phillips Petroleum Co. (Cases 9331 and 9429) and Mobil Exploration and Producing U. S. Inc. (Case 9430) in which Phillips and Mobil sought, among other things, the creation of certain non-standard proration units in Section 22, Township 17 South, Range 35 East, N.M.P.M., South Shoe Bar-Atoka Gas Pool, Lea County, New Mexico.

(3) On September 19, 1988 the Commission entered orders R-8644-A (Cases 9331 and 9429) and R-8734 (Case 9430) which resulted in three non-standard gas proration units in Section 22, and imposed production limitations on the wells on these non-standard units.

New production

(4) Applicant, Sun Exploration and Production Company ("Sun"), is the operator of a standard 320-acre proration unit in the S/2 of Section 15, Township 17 South, Range 35 East, N.M.P.M., on which is located at an orthodox location a gas well completed in the South Shoe Bar-Atoka Gas Pool, Lea County, New Mexico. Sun seeks amendment of Commission Orders R-8644-A and R-8734 to provide for ~~meaningful~~ ^{new} limitations on production from the wells to which non-standard spacing or proration units are dedicated in Section 22.

(5) T. H. McElvain, operator of the New Mexico "AC" State Well No. 1, located on a non-standard gas proration unit comprised of the SE/4 and the S/2 SW/4 of Section 22, appeared in opposition to Sun's application contending it constituted a collateral attack on the prior orders of the Division.

(6) The evidence established that reservoir conditions had changed since the entry of Orders R-8644-A and R-8734 which warrants further review under the Commission's retained jurisdiction in Order paragraph 5 of each of these orders, to determine whether or not the correlative rights of Sun are currently being protected.

(7) Phillips Petroleum Company, the operator of a non-standard gas proration unit in the South Shoe Bar-Atoka Gas Pool comprised of the W/2 NW/4 and the N/2 SW/4 of Section 22 also appeared in opposition to the application of Sun and testified that a minimum rate of 1 mmcf per day was necessary to lift water produced from their well in the NW/4 NW/4 of Section 22. (Testimony of William Mueller)

(8) Phillips evidence established that little water was produced by their well (approximately 1/10th of less than 10 bbls per day). (Testimony of William Mueller) Phillips also presented evidence (Phillips Ex. #3) that showed that another well in the pool operated by Enron was producing approximately 14 bbls of liquids a day at a 200 to 300 mcf per day rate with no apparent problems in lifting fluids.

(9) Phillips also testified that current production rates from their well would result in a pay-out in two years and in less time if compression was installed on the well. Phillips further testified that if Sun's requested penalty was adopted the pay-out for this well could be extended to four years. (Testimony of William Mueller)

(10) Four years is a reasonable pay-out period for a well in this pool and, furthermore, the cost of paying out a well is not a valid consideration in determining whether or not correlative rights of an operator are protected.

(11) Furthermore, Phillips admitted at the time the well was drilled it knew that the reservoir had experienced pressure depletion and that they were dedicating to their well a unit which contained only half the acreage required by Oil Conservation Division rules.

(12) The evidence established that the production restrictions in Orders R-8644-A and R-8734 have not restricted the production from any well in Section 22. (Testimony of William Mueller)

(13) The prior Commission orders have resulted in the 320-acre standard gas proration unit operated by Sun being offset on the South by two wells located in the N/2 of Section 22.

(14) Sun's well in the S/2 of Section 15 has recently been capable of producing 2.6 mmcf per day whereas the two wells immediately offsetting this standard gas spacing unit in Section 22 have a combined potential producing capacity of approximately 4.55 mmcf per day. (Testimony of William Mueller)

(15) All parties have agreed that wells in this Atoka Sand Reservoir will drain in excess of 320-acres.

(16) If Sun is to have an opportunity to produce its just and fair share of the reserves underlying the S/2 of Section 15, thereby protecting its correlative rights, Sun must either offset drainage from the N/2 of Section 22 by drilling an additional well in the S/2 of Section 15 or the production limitations imposed on the wells in Section 22 must be changed so they effectively restrict production from the N/2 of Section 22.

(17) Drilling an additional well in the S/2 of Section 15 is unnecessary and would constitute waste.

(18) Production rates in the pool have declined substantially in recent months and that production rates between wells vary significantly in this reservoir. Both of these factors make ineffective the imposition of production limitations based on a 6 mmcf per day flow rate.

(19) A 10% per year decline for the reservoir does not represent the average performance of the wells in this pool. (Testimony of William Mueller).

(20) Sun recommends that new penalties on production for wells on non-standard gas proration units in Section 22 be imposed by multiplying the deliverability of each of the wells as determined from semi-annual deliverability tests by the percent of a standard spacing or proration unit dedicated to each well.

(21) Use of deliverability data from semi-annual deliverability tests is used by the Division in penalizing wells for unorthodox well locations and is a reasonable way to determine the producing capability of each of the wells in Section 22.

(22) The deliverability tests should be taken on each well under normal conditions after a 72-hour stabilization period in which the well is produced.

(23) All deliverability tests should be witnessed by the Oil Conservation Division staff and notice of such tests should be provided to offset operators to afford them an opportunity to also witness these tests.

(24) The first test should be conducted within 30-days of the effective date of this order.

(25) More frequent tests should be required if requested by any operator in the pool if such test is necessary because of changed reservoir conditions.

(26) The imposition of penalties on wells in Section 22 of Township 17 South, Range 35 East, based on the deliverability of each well multiplied by the percent of a standard spacing or proration unit dedicated to the well will result in effective production limitation factors, will prevent waste and will protect the correlative rights of all interest owners in the pool.

IT IS THEREFORE ORDERED:

(1) The application of Sun Exploration and Production Company for amendment of Orders R-8644-A and R-8734 to establish new production limitation factors for ~~each~~ wells to which non-standard spacing or proration units ~~is~~ dedicated in Section 22, Township 17 South, Range 35 East, N.M.P.M., South Shoe Bar-Atoka Gas Pool, is hereby ~~granted~~ denied.

12 June 1970

(2) Production from each well located on a non-standard gas proration unit in Section 22, shall be restricted to a daily producing rate to be determined by multiplying the wells deliverability as determined from deliverability tests to be conducted on at least a semi-annual basis times the percent of a standard spacing unit dedicated to the well.

(3) An initial deliverability test of each well shall be conducted within 30-days of the date of this Order.

(4) Additional tests shall be taken of each well during the sixth month following each preceding test unless more frequent tests are required on request of any operator in the pool as a result of changes in reservoir conditions.

(5) Each tests shall be taken of wells under normal conditions after a 72-hour stabilization period during which the well is produced.

(6) All tests shall be witnessed by the staff of the Oil Conservation Division and notice of such tests shall be provided to all offset operators to provide them an opportunity to attend and witness the testing.

(7) In regard to the restrictions imposed by this order, production during any month at a rate less than the limitation provided herein shall not be carried forward as underproduction into succeeding months, but overproduction of such limitation during any such month shall be made up in the next succeeding month or months by shut-in or reduced rates as required by the District Supervisor of the Division.

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

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

WILLIAM R. HUMPHRIES,
Member

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ERLING A. BROSTUEN,
Member

WILLIAM J. LeMAY
Chairman and Secretary

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