

M.S.

KELLAHIN, KELLAHIN and AUBREY
Attorneys at Law

W. Thomas Kellahin
Karen Aubrey

El Patio - 117 North Guadalupe
Post Office Box 2265

Telephone 982-4285
Area Code 505

Jason Kellahin
Of Counsel

Santa Fé, New Mexico 87504-2265

April 21, 1989

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OIL CONSERVATION DIV.
SANTA FE

Mr. William J. Lemay
Director
Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

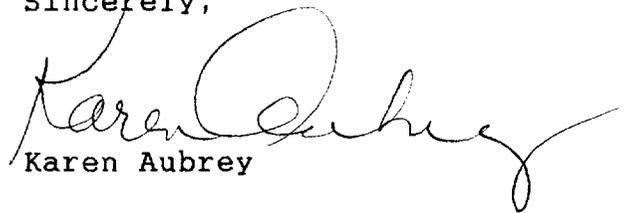
Re: Case No. 9651 - Application of Sun
Exploration and Production Company for
Amendment of Orders R-8644-A and R-8734
to Establish New Production Limitation
Factors for Each Well to Which a Non-Standard
Spacing or Proration Unit is Dedicated in the
South Shoe Bar-Atoka Gas Pool, Lea County,
New Mexico.

Dear Mr. Lemay:

On behalf of Phillips Petroleum Company, I enclose a
proposed order for the Commission's consideration.

By copy of this letter I am sending a copy of the
Proposed Order to all parties who entered an appearance in
this case.

Sincerely,


Karen Aubrey

KA/rs
Encl.

cc: w/enclosures

William Mueller
Phillips Petroleum Company
4001 Pennbrook
Odessa, Texas 79762

Ann B. Tallmadge
Montgomery and Andrews
325 Paseo de Peralta
Santa Fe, New Mexico 87501

KELLAHIN, KELLAHIN and AUBREY

Mr. William J. LeMay
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William F. Carr
Campbell and Black
Post Office Box 2208
Santa Fe, New Mexico 87504

Larry Garcia
Marathon Oil Company
Post Office Box 3128
Houston, Texas 77253

A. J. Losee
Losee, Carlson, Haas & Carroll
Post Office Drawer 239
Artesia, New Mexico 88211-0239

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:

CASE NO. 9651
ORDER NO. R-

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 WELL TO WHICH A NON-
STANDARD SPACING OR PRORATION UNIT IS
DEDICATED IN THE SOUTH SHOE BAR-ATOKA
GAS POOL, LEA COUNTY, NEW MEXICO

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 _____, 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) Applicant Sun Exploration and Production Company (Sun), seeks amendment of Orders R-8644-A and R-8734 to establish new production limitation factors for each well to which a non-standard spacing or proration unit is dedicated in the South Shoe Bar-Atoka Gas Pool, Lea County, New Mexico.

(3) Phillips Petroleum Company opposed any amendment of order R-8644-A which would result in additional production limitation factors for its Phillips State 22-#1 Well, located in Unit D, Section 22, Township 17S, Range 35E, Lea County, New Mexico.

(4) Phillips Petroleum Company was the applicant in Case No. 9331 (De Novo) from which Order R-8644-A was issued.

(5) In Order R-8644-A, the Commission granted Phillips' request for a non-standard proration unit consisting of 160 acres to be dedicated to a well to be drilled 660 feet FNL and 660 feet FWL of Section 22, Township 17S, Range 35E, Lea County, New Mexico.

(6) Further, in Order R-8644-A the Commission imposed an initial daily production limitation on said well of 3,000,000 cubic feet of gas per day.

(7) This initial daily production limitation was based upon a finding by the Commission that 6,000,000 cubic feet of gas was the maximum flow rate for wells subject to being penalized by that order.

(8) After the entry of Order R-8644-A, and in reliance thereon, Phillips drilled and completed its State 22-#1 Well, 660 feet FNL and 660 feet FWL, Section 22, Township 17S, Range 35E, N.M.P.M, Lea County, New Mexico.

(9) Phillips State 22-#1 Well was completed in December, 1988 with a calculated open flow of 546 mcf of gas per day, and a shut-in tubing pressure of 1318 psig.

(10) Phillips calculates that the production limitation factor requested by Sun would result in restriction of production from Phillips State 22-#1 to 270 mcf/day.

(11) A production limitation of 270 mcf/day will result in the Phillips 22-#1 becoming a non-economic well.

(12) A production limitation of 270 mcf/day will result in payout of Phillips well being increased up to six years.

(13) Phillips spent more than \$734,000.00 in drilling and completing its State 22-#1 Well.

(14) Phillips relied on Commission Order R-8644-A and the production limitation contained therein in calculating its economics and in deciding whether to drill the State 22-#1.

(15) Sun produced no estimate for the Commission of the amount of production the Phillips well would be permitted under its proposed daily production limitation factor.

(16) Sun produced no well test performance evaluations on its Shoe Bar State Com No. 1 Well to explain that well's relatively poor performance.

(17) Sun produced no deliverability calculations for those wells from which it seeks to limit production.

(18) Sun produced no evidence of the boundaries of the drainage radius of its Shoe Bar State Com No. 1 Well under its proposed production limitation factors.

(19) Sun produced no data to confirm the interpretations drawn by its geologist regarding the location of the 30 foot contours shown on its net pay map.

(20) Phillips introduced testimony showing that a daily production rate of 1,000,000 cubic feet of gas per day is required to lift the liquids in its wellbore.

(21) Sun admitted that it does not seek to limit the production from the Phillips well below that required to lift the liquids.

(22) Sun admitted that reserves had been drained from its acreage in Section 15 during the time in which its well was completed but not producing.

(23) Sun admitted that it has performed no stimulation or remedial work in order to increase the production from its well.

(24) Phillips introduced testimony, which was not disputed, that Sun had lost reserves of up to 750,000,000 cubic feet of gas in the time the Sun well was completed but not producing.

IT IS THEREFORE ORDERED THAT:

(1) The production limitations contained in Order R-8644-A were based on substantial evidence.

(2) Affected parties have relied on those production limitations in expending substantial sums of money.

(3) No substantial evidence was produced by applicant to show that those findings should be altered.

(4) The application is denied.

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

WILLIAM R. HUMPHRIES, Member

EARLING A BROSTUEN, Member

WILLIAM J. LEMAY, Chairman and
Secretary