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October 17, 1986

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HAND-DELIVERED

Mr. Michael E. Stogner
Oil Conservation Commission
Post Office Box 2088
Santa Fe, New Mexico 87501

RECEIVED

OCT 18 1986

OIL CONSERVATION DIVISION

Texaco, Inc.
Re: ~~Texas~~ Application for
Unorthodox well location
NE Lovington-Penn. Pool
NMOCD Case 8993

Dear Mr. Stogner:

Please find enclosed a proposed order for entry
in the referenced case.

Very truly yours,


W. Thomas Kellahin

WTK:mh
Enclosure

cc: William F. Carr, Esq., (w/enc.)
Post Office Box 2208
Santa Fe, New Mexico 87504

Mr. Robert C. Leibrock (w/enc.)
Amerind Oil Company
500 Wilco Building
Midland, Texas 79701

Mr. Paul Bruce (w/enc.)
Pennzoil Company
Post Office Box 1828
Midland, Texas 79702

Mr. Robert E. Curtis (w/enc.)
Standard Oil Production Company
Suite 1000-LB 03
Two Lincoln Centre
5420 LBJ Freeway
Dallas, Texas 75240

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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OCT 18 1986

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF TEXACO, INC.
FOR UNORTHODOX OIL WELL LOCATION,
LEA COUNTY, NEW MEXICO.

CASE NO. 8993
ORDER NO. R-_____

AMERIND OIL COMPANY, PENNZOIL
COMPANY AND STANDARD
OIL PRODUCTION COMPANY

PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 A.M. on October 8, 1986, at Santa Fe New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of _____, 1986, the Division Director, having considered the testimony, exhibits, transcript and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Texaco, Inc. seeks an exception to the Special Rules and Regulations for the Northeast Lovington-Pennsylvanian Pool, as promulgated by Division Order R-3816-A, as amended, to authorize an unorthodox oil well location for its Lovington Lumpkins 20 Well #2 to be drilled 1470 feet FSL and 150 feet FEL of Section 20, T16S, R37E, NMPM,

Lea County, New Mexico, to which Texaco would dedicate the N/2 SE/4 of said section to the subject well.

(3) That the Special Pool Rules for the Northeast Lovington Pennsylvanian Pool require that oil wells be drilled within 150 feet of the center of a governmental quarter-quarter section.

(4) That the closest standard location for the Texaco spacing unit would be 554 feet from the east and south lines of the spacing unit.

(5) Texaco's proposed location is 150 feet from the east and south lines of the spacing unit and is a location that is opposed by Amerind Oil Company, Pennzoil Company and Standard Oil Production Company.

(6) That each of the adjoining spacing units towards which Texaco seeks to move its well, already has a producing Strawn oil well at standard well locations so that none are closer to the Texaco spacing unit than 510 feet.

(7) Texaco's proposed spacing unit consists of 80 acres, however, as a result of Texaco drilling its Lumpkin 1-Y well as a dry hole at a location 510 feet from the east line of Section 20, Texaco testified that only 25% of the surface area of this unit was within the zero contour line on the isopach of the Strawn reservoir as interpreted by Texaco's geologist.

(8) Texaco sought approval of the unorthodox well location with a penalty of 60% by using the algebraic "double circle" penalty formula as set forth in Order R-8025-A.

(9) That by using the penalty formula proposed by Texaco, the subject well would be allowed to produce 214 barrels of oil a day (40% x 534) which is an amount approximately equal to the average current daily producing rate of the offset wells being produced by offset operators from wells at standard well locations.

(10) That to approve the proposed Texaco penalty

formula will give Texaco an unfair advantage over offsetting wells and will violate correlative rights to those interest owners.

(11) That the penalty formula proposed by Texaco is used by the Division only when there is inadequate geological and/or engineering evidence available upon which to base a penalty.

(12) That the use of the proposed Texaco penalty fails to take into consideration the volume of the reservoir underlying its tract in relation to the total volume of the reservoir.

(13) That the Texaco proposed penalty fails to take into consideration the net productive acreage underlying its tract.

(14) There is sufficient well data, geological and engineering evidence available so that the Division should not use the "double circle" penalty formula.

(15) That the only available information to determine the original oil in place, the ultimate recovery and the remaining reserves underlying the Texaco tract were presented by Pennzoil's expert petroleum engineer.

(16) That the testimony was that Texaco's tract contained approximately 220 acre feet of reservoir volume out of a total estimated reservoir volume of 14,110 acre feet or a 1.6% of the total reservoir volume.

(17) By volumetric calculation it was estimated that the total reservoir contained approximately 5 million barrels of oil originally in place and that using a 25% recovery factor which is deemed reasonable, the Texaco tract could have been expected to produce approximately 20,000 barrels of oil.

(18) That Pennzoil's engineering evidence established that there was approximately 80,000 barrels of oil originally in place under the Texaco tract with initial ultimate recovery being estimated to be 20,000 barrels of oil and a remaining

recoverable oil reserve for this tract of 9,400 barrels of oil.

(19) That Texaco testified that the subject well is estimated to cost \$700,000.

(20) That there is insufficient recoverable oil remaining under the Texaco tract to justify the drilling of this well unless Texaco is able to produce the oil underlying the adjoining tracts in violation of the correlative rights of those adjoining owners.

(21) That Section 7-2-33 H, NMSA, 1978 Compilation defines correlative rights as being "...the opportunity afforded, so far as it is practicable to do so, to the owner of each property in a pool to produce without waste his just and equitable share of the oil or gas, or both, in the pool..."

(22) That Texaco has been afforded the opportunity to protect its correlative rights and has exhausted that opportunity by drilling the Lumpkin 1-Y as a dry hole.

(23) That approval of the subject well location with a penalty may be done without violating correlative rights so long as the penalty is sufficient to preclude Texaco from producing more than the recoverable oil originally underlying its tract.

(24) That the undisputed testimony from Pennzoil's petroleum engineer is that a daily oil allowance of 20 barrels a day will allow Texaco to recover 21,900 barrels of oil over a three year period which is an amount equal to the initial recoverable oil underlying the Texaco tract.

(25) That the undisputed testimony from the Pennzoil's petroleum engineer is that a daily oil allowance in excess of 20 barrels a day would be a rate that would allow Texaco to recover more than its just and equitable share of the oil in the pool.

(26) That in order to preclude Texaco from

recovering more than its 20,000 barrels of recoverable oil originally under its tract, the penalty for the Texaco well should be 96% of the top monthly allowable of 534 barrels a day or a production allowable of 4% of 534 barrels a day all as set forth on Pennzoil's Exhibit (6) incorporated by reference herein.

(27) That Texaco should be required to determine the subsurface location of the well at the top of the Strawn formation by means of a continuous multi-shot directional survey conducted subsequent to the drilling of the well, if said well is to be completed as a producing well to insure that the bottom location of its well remains on its tract.

(28) Approval of this application subject to the above provision and limitations will afford the applicant the opportunity to produce its just and equitable share of the oil in the subject pool, will 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, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) That the application of Texaco, Inc. for an unorthodox oil well location for the Northeast Lovington-Pennsylvanian Pool is hereby approved to be located at a point 1470 feet FSL and 150 feet FEL of Section 20, T16S, R37E, NMPM, Lea County, New Mexico.

(2) That the N/2 SE/4 of said Section 20 shall be dedicated to the well.

(3) That the above described well is hereby assigned an oil allowable of 4% of the top allowable for a well in said pool.

(4) That subsequent to the drilling of the well, and should the well be a producer, a continuous multi-shot directional survey shall be made of the wellbore of the well from the surface to the total depth with shot points not more than 100 feet apart; that the operator shall cause the survey company to

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Case No. 8993

Order No. _____

forward a copy of the survey report directly to the Director, Oil Conservation Division, Post Office Box 2088, Santa Fe, New Mexico, and that the operator shall also notify each of the opponents as well as the Division District Office of the date and time said survey is to be commenced.

(5) 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 CONSERVTION DIVISION

RICHARD L. STAMENTS
Director

S E A L

Calculation of Proposed Penalty Allowable

Proposed Allowable - 20 BOPD
Assume constant production for 3 years

$$20 \text{ BOPD} \times 365 \times 3 = 21,900 \text{ BBLS}$$

$$\% \text{ Allowable Penalty} = \left(1 - \frac{\text{Proposed Allowable}}{\text{Top Allowable}} \right) \times 100$$

$$= \left(1 - \frac{20}{534} \right) 100$$

$$= (1 - .04) 100$$

$$\% \text{ Allowable Penalty} = 96\%$$

BEFORE EXAMINER STOGNER
OIL CONSERVATION DIVISION

EXHIBIT NO. 6

CASE NO. _____