

**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:**

**NOMENCLATURE
CASE NO. 12815
ORDER NO. R-11771**

**APPLICATION OF READ & STEVENS, INC. FOR POOL CREATION AND THE
PROMULGATION OF SPECIAL POOL RULES, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 21, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of May, 2002 the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) Read & Stevens, Inc. ("Applicant") is the owner and operator of the Liberty "4" Well No. 1 (API No. 30-025-35371), which was drilled in April, 2001 to a total depth of 13,630 feet to test both the Devonian and Ellenburger formations at a previously approved unorthodox gas well location (see Division Administrative Orders NSL-4536, dated December 27, 2000, and NSL-4536-A, dated May 22, 2001) 1800 feet from the South line and 330 feet from the West line (Unit L) of Section 4, Township 20 South, Range 36 East, NMPM, Lea County, New Mexico, within a standard 320.29-acre stand-up gas spacing unit for both formations comprising Lots 3 and 4, the S/2 NW/4, and the SW/4 (W/2 equivalent) of Section 4.

(3) On October 28, 2001, the Applicant completed this well in the shallower Devonian interval as an oil well with perforations from approximately 10,604 feet to 10,621 feet.

(4) Currently this Devonian oil production is classified as "wildcat" production and is governed by the Division's statewide rules [Rule 104.B (1)] with development on

standard 40-acre spacing and proration units, each having a top unit depth bracket allowable of 320 barrels of oil per day and a limiting gas/oil ratio of 2,000 cubic feet of gas per barrel of oil, which results in a casinghead gas allowable of 640 MCF per day (Rule 505).

(5) The applicant now seeks the creation of a new pool for this Devonian oil production underlying the SW/4 of Section 4, to be designated the North Osudo-Devonian Pool, with special pool rules including provisions for 160-acre spacing with no more than one producing well for each 160-acre unit and designated well location requirements whereby wells would be located no closer than 330 feet to any quarter-quarter section line or lot.

(6) The preliminary engineering and geological evidence presented by the applicant indicates that the Devonian pay zone encountered in this well is capable of draining an area in excess of 40 acres.

(7) The Applicant's evidence indicates that 160-acre oil spacing and proration units and the proposed well density limit of no more than one well per unit:

(a) will prevent the drilling of unnecessary wells, protect correlative rights, and provide for the orderly development of the reservoir;

(b) will expedite the orderly development of the pool by the drilling of the fewest necessary wells to define the probable limits of the pool; and

(c) will establish the most appropriately sized spacing units for the pool.

(8) Further, the proposed 330-foot setback requirement would serve to maximize flexibility in locating wells within spacing units at locations that are geologically and/or topographically acceptable.

(9) The Applicant provided notice in accordance with Division Rule 1207.A (4). Northern Oil Company entered its appearance at the hearing through legal counsel; however, no other operator and/or mineral interest owner appeared at the hearing in opposition to this application.

(10) Approval of this application will not cause the waste of reservoir energy, reduce ultimate recovery or impair correlative rights.

(11) At the time of the hearing the Applicant requested that these special rules be made effective retroactive to the date of first production from the discovery well. This case is to be reopened at an examiner hearing in May, 2003, to allow the operators in the pool to appear and show cause why the temporary special pool rules for this pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Read & Stevens, Inc., a new pool in Lea County, New Mexico, classified as an oil pool for Devonian production is hereby created and designated the North Osudo-Devonian Pool, with vertical limits comprising the entire Devonian formation and horizontal limits comprising the following-described area:

TOWNSHIP 20 SOUTH, RANGE 36 EAST, NMPM
Section 4: SW/4.

(2) The temporary special rules for the North Osudo-Devonian Pool are hereby promulgated as follows:

**TEMPORARY SPECIAL RULES AND REGULATIONS
FOR THE
NORTH OSUDO-DEVONIAN POOL**

RULE 1: Each well completed or recompleted in the North Osudo-Devonian Pool or in the Devonian formation within one mile thereof, and not nearer to or within the limits of another Devonian pool, shall be spaced, drilled, operated and produced in accordance with these special rules.

RULE 2: Each well shall be located on a standard unit containing 160 acres, more or less, consisting of a governmental quarter section.

RULE 3: The Division Director may grant an exception to the requirements of Rule 2 above without notice and hearing when an application has been duly filed under the provisions of Division Rule 104.D (2).

RULE 4: Each well shall be located no closer than 330 feet to any quarter-quarter section line or lot.

RULE 5: The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been duly filed under the provisions of Division Rule 104.F.

RULE 6: There shall be no more than one producing oil well for each 160-acre oil spacing and proration unit.

IT IS FURTHER ORDERED THAT:

(3) The location of any well presently drilling to or completed in the North Osudo-Devonian Pool or in the Devonian formation within one mile thereof is hereby approved. The operator of any well having an unorthodox location shall notify the Division's Hobbs District Office in writing of the name and location of the well within 20 days from the date of this order.

(4) Existing oil wells in the North Osudo-Devonain Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, existing oil wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

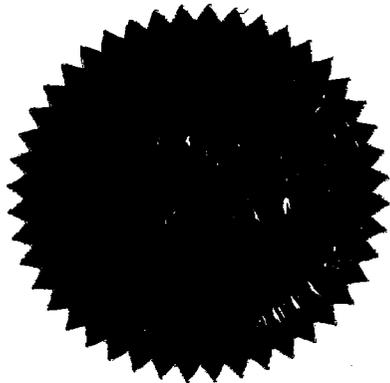
Failure to file new Forms C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable.

(5) Unless called earlier by the motion of the Division, this case shall be reopened at an examiner hearing in May, 2003, at which time the operator(s) in the subject pool should be prepared to appear and show cause why the temporary special pool rules for the North Osudo-Devonain Pool should not be rescinded and the pool not be developed on statewide 40-acre spacing.

(6) The effective date of this order shall be made retroactive to October 28, 2001.

(7) Jurisdiction is hereby 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery

LORI WROTENBERY
Director