

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. 13241
ORDER NO. R-12146

APPLICATION OF DEVON ENERGY PRODUCTION COMPANY, L.P. FOR A
TEMPORARY EXCEPTION TO DIVISION RULE 104.C.(2)(c), LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on April 1, 2004, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 7th day of May, 2004, 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) The applicant, Devon Energy Production Company, L.P. ("Devon"), seeks an exception to Division Rule 104.C.(2)(c) to allow two operators in the Morrow formation in an existing gas spacing and proration unit comprising Lots 1 through 8 of Irregular Section 1, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This unit will be simultaneously dedicated to the existing State "R" Well No. 1 (API No. 30-025-34271) located 1980 feet from the North line and 1650 feet from the West line (Lot 6) of Section 1, which is currently operated by ConocoPhillips Company ("ConocoPhillips"), and to the proposed State "R" Well No. 4 (API No. 30-025-36544) to be located 1000 feet from the North line and 1780 feet from the East line (Lot 2) of Section 1, which will be drilled and operated by Devon.

(3) Division Rule 104.C.(2) provides that in Southeast New Mexico, an initial and infill well may be drilled on a standard gas spacing and proration unit comprising 320 acres provided that: (i) the initial and infill well shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; (ii) /the infill well shall be located within the quarter section not containing the initial well; and (iii) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(4) The ConocoPhillips State "R" Well No. 1 was drilled in 1998. This well is currently being produced as a **downhole** commingled completion in the West Osudo-Morrow and Southwest Osudo-Atoka Gas Pools.

(5) Devon presented evidence that demonstrates that:

- (a) Lots 1, 2, 7 and 8 of Section 1 comprise State of New Mexico Lease No. B-1924-1, and Lots 3, 4, 5 and 6 of Section 1 comprise State of New Mexico Lease No. NM-1375-42;
- (b) Lots 1 through 16 of Section 1 are subject to a Joint Operating Agreement (JOA) dated February 18, 1998. This JOA was executed by the parties owning an interest in the acreage at that time, which were Santa Fe Energy Resources, Inc., Phillips Petroleum Company and **Nearburg** Exploration Company, L.L.C. ("**Nearburg**");
- (c) the current working interest owners in the subject spacing unit are Devon, ConocoPhillips and Nearburg;
- (d) under the provisions of the JOA, Devon has the right to propose and has proposed the drilling of the State "R" Well No. 4 as an infill well within the spacing unit. Nearburg has elected to participate in the drilling of the well, and ConocoPhillips has elected to go non-consent and not participate; and

- (e) pursuant to the terms of the JOA, ConocoPhillips will not share in the production revenue from the State "R" Well No. 4 until such time as its share of well costs, plus an additional 200% of those costs (non-consent penalty), has been recovered by the other interest owners in the well.
- (6) Devon has filed a Form C-101 (Application for Permit to Drill) and has obtained approval from the Division to drill the State "R" Well No. 4.
- (7) Devon seeks to be named operator of record for the State "R" Well No. 4 until such time as it has recovered out of production ConocoPhillips' share of well costs plus 200% of those costs. At that time, Devon will turn over operatorship of the State "R" Well No. 4 to ConocoPhillips.
- (8) Devon has attempted to negotiate an agreement with ConocoPhillips whereby Devon would drill and operate the State "R" Well No. 4, and ConocoPhillips would serve as the operator of record for the well and file monthly production reports. Devon testified that ConocoPhillips has declined this proposal.
- (9) ConocoPhillips does not object to Devon drilling and operating the well during the period of payout and recovery of the non-consent penalty.
- (10) Nearburg supports the application of Devon in this case.
- (11) Devon testified that the production from the State "R" Wells No. 1 and 4 will be processed and metered separately, and that there will be no commingling of this production.
- (12) The West Osudo-Morrow Gas Pool is a non-prorated gas pool and is therefore not subject to production restrictions. Pursuant to Division rules, the State "R" Wells No. 1 and 4 are allowed to produce at capacity.
- (13) ONGARD (Oil and Natural Gas Administration Revenue Database), the Division's production reporting system, is capable of accepting monthly production reports from two operators within a spacing unit.

(14) Approval of the application will enable Devon to produce additional gas reserves from the West Osudo-Morrow Gas Pool underlying Lots 1 through 8 of Section 1 that may otherwise not be recovered, thereby preventing waste, and will not violate correlative rights.

(15) Prior to commencing production from the State "R" Well No. 4, Devon should consult with the Commissioner of Public Lands for the State of New Mexico and the New Mexico Taxation & Revenue Department to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of those agencies.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Devon Energy Production Company, L.P., is hereby granted an exception to Division Rule 104.C.(2)(c) to allow two operators in the Morrow formation in an existing gas spacing and proration unit comprising Lots 1 through 8 of Irregular Section 1, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This unit shall be simultaneously dedicated to the existing State "R" Well No. 1 (API No. 30-025-34271) located 1980 feet from the North line and 1650 feet from the West line (Lot 6) of Section 1, which will be operated by ConocoPhillips Company, and to the proposed State "R" Well No. 4 (API No. 30-025-36544) to be located 1000 feet from the North line and 1780 feet from the East line (Lot 2) of Section 1, which will be drilled and operated by Devon Energy Production Company, L.P.

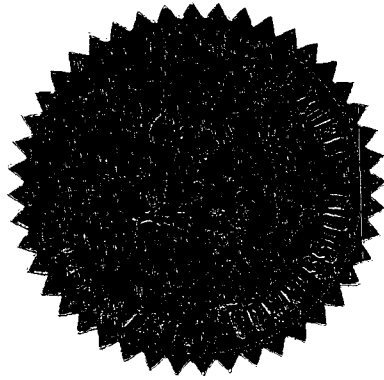
(2) The authority granted by this order shall terminate at such time as ConocoPhillips Company, by virtue of paying its share of well costs and a non-consent penalty for the State "R" Well No. 4 out of production, re-acquires a revenue interest in the well. At that time, and in accordance with the proposal set forth by Devon Energy Production Company, L.P., ConocoPhillips Company shall assume operatorship of the State "R" Well No. 4.

(3) Prior to commencing production from the State "R" Well No. 4, Devon Energy Production Company, L.P. shall consult with the Commissioner of Public Lands for the State of New Mexico and the New Mexico Taxation & Revenue Department to assure that its proposed method of production within the subject spacing unit is in compliance with all applicable rules and procedures of those agencies.

(4) 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



SEAL

JOANNA PRUKOP
Cabinet Secretary/Acting Director

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