

**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:**

**CASE NO. 13594
ORDER NO. R-12459**

**APPLICATION OF KAISER-FRANCIS OIL COMPANY TO AMEND
ADMINISTRATIVE ORDER NSL-5133 TO ESTABLISH A NON-STANDARD
SPACING AND PRORATION UNIT, AND FOR AN EXCEPTION TO RULE
104(B)(1), EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 17, 2005, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 1st day of December, 2005, 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) By Division Order No. NSL-5133 dated November 17, 2004, the Division authorized Kaiser-Francis Oil Company to drill its Mesa Grande "11" Well No. 2 (API No. 30-015-33720) at an unorthodox gas well location 2661 feet from the South line and 660 feet from the West line (Unit L) of Section 11, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, to test the Strawn and Morrow formations. Pursuant to this order, the W/2 of Section 11 was dedicated to the well forming a standard, more or less, 320-acre gas spacing and proration unit for the Undesignated Happy Valley-Strawn and South Carlsbad-Morrow Gas Pools.

(3) The applicant, Kaiser-Francis Oil Company ("applicant" or "Kaiser-Francis"), seeks to amend Division Order No. NSL-5133 to approve an unorthodox oil well location for the Mesa Grande "11" Well No. 2 in the Delaware and Bone Spring formations 2661 feet from the South line and 660 feet from the West line (Unit L) of Section 11, and to establish an 80-acre non-standard spacing and proration unit for the Delaware and Bone Spring formations comprising the SW/4 NW/4 and the NW/4 SW/4 of Section 11.

(4) Kaiser-Francis presented evidence that demonstrates that:

- (a) the Mesa Grande "11" Well No. 2 was drilled in January, 2005 to a total depth of 11,500 feet. The well encountered no commercial gas production in either the Strawn or Morrow intervals;
- (b) due to mechanical problems that occurred while attempting to plug back and isolate the lower zones, Kaiser-Francis is currently unable to get below a depth of 7,763 feet in the Mesa Grande "11" Well No. 2; and
- (c) while drilling the well, good oil shows were encountered in the Bone Spring lime and the Bone Spring sand intervals. Lesser oil shows were also encountered in the Delaware formation.

(5) The Mesa Grande "11" Well No. 2 is not located within one mile of any existing Division-designated pools that produce from the Delaware or Bone Spring formations.

(6) A Bone Spring and/or a Delaware completion in the Mesa Grande "11" Well No. 2 would be considered a wildcat completion, and is therefore subject to Division Rule 104(B)(1). This rule requires standard 40 acre oil spacing and proration units with wells to be located no closer than 330 feet to the outer boundary of the proration unit.

(7) Kaiser-Francis seeks to establish an 80-acre non-standard spacing and proration unit due to the well's close proximity to the center-line separating the SW/4 NW/4 and the NW/4 SW/4 of Section 11. Additionally, if the well proves to be productive, it will likely drain portions of both quarter-quarter sections.

(8) Kaiser-Francis presented evidence that demonstrates that:

- (a) the W/2 of Section 11 is comprised of several different fee leases and is subject to an existing Joint Operating Agreement (JOA) that covers all formations and depths;
- (b) all parties owning an interest in the W/2 of Section 11 are voluntarily committed to the JOA; and
- (c) under the terms of the JOA, all of the interest owners in the W/2 of Section 11 will share in the production from the Mesa Grande "11" Well No. 2 in the event of a successful Delaware and/or Bone Spring completion.

(9) Kaiser-Francis further presented testimony to the effect that the interest ownership in the Mesa Grande "11" Well No. 2 in a Bone Spring and/or Delaware completion will remain the same regardless of whether 80 acres or 40 acres are dedicated to the well.

(10) All parties owning an interest in the W/2 of Section 11 were notified of the application. No interest owner appeared at the hearing in opposition to the application.

(11) Approval of the unorthodox oil well location for the Mesa Grande "11" Well No. 2 will provide Kaiser-Francis the opportunity to produce the oil and gas reserves in the Delaware and/or Bone Spring intervals underlying the SW/4 NW/4 and the NW/4 SW/4 of Section 11, will prevent the drilling of unnecessary wells, and will not violate correlative rights.

(12) The evidence presented by Kaiser-Francis further demonstrates that it is not necessary to form an 80-acre non-standard spacing and proration unit for the Mesa Grande "11" Well No. 2, and that correlative rights will be protected by dedicating a standard 40 acre unit to the well.

(13) The portion of Kaiser-Francis' application to form an 80-acre non-standard spacing and proration unit for the Mesa Grande "11" Well No. 2 comprising the SW/4 NW/4 and the NW/4 SW/4 of Section 11 should be dismissed.

IT IS THEREFORE ORDERED THAT:

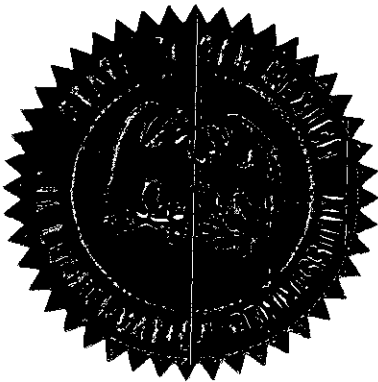
(1) The application of Kaiser-Francis Oil Company to amend Division Order No. NSL-5133 to authorize an unorthodox oil well location for its Mesa Grande "11" Well No. 2 (API No. 30-015-33720) 2661 feet from the South line and 660 feet from the West line (Unit L) of Section 11, Township 22 South, Range 26 East, NMPM, Wildcat Delaware and Bone Spring Pools, Eddy County, New Mexico, is hereby approved.

(2) The NW/4 SW/4 of Section 11 shall be dedicated to the Mesa Grande "11" Well No. 2 to form a standard 40-acre oil spacing and proration unit.

(3) That portion of Kaiser Francis Oil Company's application to establish an 80-acre non-standard spacing and prorating unit comprising the NW/4 SW/4 and the SW/4 NW/4 of Section 11, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, is hereby dismissed.

(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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director