

**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. 13794
ORDER NO. R-12680**

**APPLICATION OF PEOPLES ENERGY PRODUCTION - TEXAS, L.P. FOR AN
UNORTHODOX WELL LOCATION AND AN EXCEPTION TO THE WELL
DENSITY REQUIREMENTS FOR THE BLANCO-MESAVERDE GAS POOL,
SAN JUAN COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 26, 2006, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 13th day of December, 2006, 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) Peoples Energy Production - Texas, L.P. ("Peoples" or "applicant"), seeks an exception to the well density provisions of the Special Rules and Regulations of the Blanco-Mesaverde (Prorated Gas) Pool (72319) within an existing standard 322.24-acre, more or less, Mesaverde spacing and proration unit consisting of the E/2 of Section 26, Township 32 North, Range 9 West, NMPM, San Juan County, New Mexico by approval of three gas wells within the southeast quarter.

(3) In addition, the applicant requests an exception to the well location requirements within the Special Pool Rules of the Blanco-Mesaverde Gas Pool for the bottomhole location of the Gardner Well No. 12.

(4) No other party entered an appearance in this case or otherwise opposed this application.

(5) Spacing and location of wells within the Blanco-Mesaverde (Prorated Gas) Pool, are governed by the Special Rules and Regulations as detailed in Division Order No. R-10987-A(1) effective December 2, 2002, which read in part as follows:

I. ACREAGE AND WELL LOCATION REQUIREMENTS

A. Standard GPU (Gas Proration Unit): A standard GPU in the Blanco-Mesaverde Pool shall be 320 acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U. S. Public Land Surveys.

B. Well density:

(1) Up to four (4) wells may be drilled on a standard GPU, as follows:

(a) the FIRST OPTIONAL INFILL WELL drilled on a GPU shall be located in the quarter section not containing the INITIAL Mesaverde well;

(b) the SECOND OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section not containing a Mesaverde well and within a quarter section not containing more than one (1) Mesaverde well;

(c) the THIRD OPTIONAL INFILL WELL drilled on a GPU shall be located in a quarter-quarter section not containing a Mesaverde well and within a quarter section not containing more than one (1) Mesaverde well;

(d) at the discretion of the operator, the second or third optional infill well may be drilled prior to the drilling of the first optional infill well;

(e) no more than two wells shall be located within either quarter section in a GPU; and

(f) any deviation from the above-described well density requirements shall be authorized only after hearing.

C. Well locations:

(1) [Except as provided for federal exploratory units] wells drilled on a GPU shall be located no closer than 660 feet to the outer boundary of the GPU and no closer than 10 feet to

any interior quarter or quarter-quarter section line or subdivision inner boundary.

(6) Currently, the 322.24-acre, E/2 of Section 26 spacing and proration unit contains the following wells:

- (a) Gardner Well No. 5A (API No. 30-045-30280)
SHL/BHL: 787 FSL 1625 FEL, Unit. O (Lot 15)
Status: Active Producer
- (b) Gardner Well No. 7A (API No. 30-045-30743)
SHL/BHL: 1180 FNL 2015 FEL, Unit B (Lot 2)
Status: Active Producer
- (c) Gardner Well No. 14 (API No. 30-045-33631)
SHL: 795 FSL 1600 FEL, Unit O (Lot 15)
BHL: 2300 FSL 774 FEL, Unit I (Lot 9)
Status: New Well
- (d) Gardner Well No. 12 (API No. 30-045-33630)
SHL: 695 FSL 1665 FEL, Unit O (Lot 15)
BHL: 2024 FSL 2453 FEL, Unit J (Lot 10)
Status: New Well, Not Yet Perforated

(7) The applicant presented the following testimony from a Landman.

- (a) Wells within the SE/4 of Section 26 were all spud from the same surface pad and two of these were deviated to the intended bottomhole locations. The rough terrain and US Bureau of Land Management policies dictate that deviated wells are necessary in this area.
- (b) The Gardner Well No. 12 was originally planned as a Mesaverde completion with an intended bottomhole location in Unit K. At that time, the Mesaverde spacing and proration unit was oriented horizontally and consisted of the S/2 of Section 26.
- (c) There was a mix-up of instructions to the driller of the Gardner Well No. 12 and the well was mistakenly drilled to a bottomhole location in Unit J. This resulted in three Mesaverde wells located within the SE/4 of Section 26, which is a violation of the Special Pool Rules.
- (d) The spacing unit was then re-oriented to consist of the E/2 of Section 26, which made the Gardner Well No. 14 location

"standard" but resulted in a "non-standard" location for the Gardner Well No. 12.

- (e) The Gardner Well No. 12 has not, been perforated pending the outcome of this case before the Division.
- (f) The applicant does not plan to drill and complete more than four wells within this E/2 spacing unit. All wells are located in different quarter-quarter sections.
- (g) The W/2 of Section 26 is part of the same federal lease underlying the E/2 of Section 26. In addition, Peoples is the operator of all of Section 26. Therefore, the encroachment of the Gardner Well No. 12 on the W/2 of Section 26 has no other affected parties.
- (h) The only other operator affected by the increased density of wells within the SE/4 of Section 26 is ConocoPhillips. ConocoPhillips has been notified as required by Division rules of this application.

(8) Allowing all three wells completed within the SE/4 of Section 26 to simultaneously produce will allow the recovery of natural gas that may otherwise not be produced and will allow the use of a drilling investment that has already been made. This exception to the Special Pool Rules should be allowed in order to prevent waste and protect correlative rights. However, no more than four wells should be allowed within this spacing unit.

(9) The applicant's request for approval of the non-standard location of the Gardner Well No. 12 should be approved in order to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Peoples Energy Production - Texas, L.P. ("Peoples") for an exception to the well density provisions of the Special Rules and Regulations of the Blanco-Mesaverde (Prorated Gas) Pool (72319) as promulgated by Division Order No. R-10987-A(1) is hereby granted. Peoples is allowed to simultaneously produce Mesaverde gas from the following three wells within the SE/4 of Section 26, Township 32 North, Range 9 West, NMPM, San Juan County, New Mexico:

- (a) Gardner Well No. 5A (API No. 30-045-30280), Unit O (Lot 15)
- (b) Gardner Well No. 14 (API No. 30-045-33631), Unit I (Lot 9)
- (c) Gardner Well No. 12 (API No. 30-045-33630), Unit J (Lot 10)

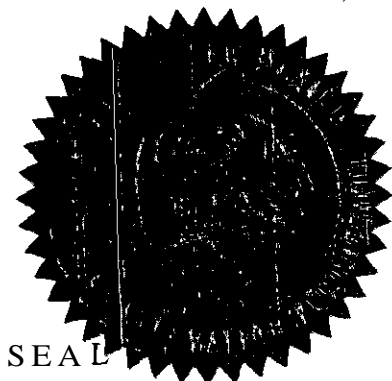
Case No. 13794
Order No. R-12680
Page 5 of 5

(2) Peoples' request to produce the Gardner Well No. 12 (API No. 30-045-33630) in the Mesaverde formation, Blanco-Mesaverde (Prorated Gas) Pool, with an unorthodox bottomhole location 2024 feet from the South line and 2453 feet from the East line of Section 26 within a standard 322.24-acre spacing and proration unit consisting of the E/2 of Section 26 is hereby approved.

(3) All other rules and regulations governing production from the Blanco-Mesaverde (Prorated Gas) Pool shall remain in full force and effect including the limit of four wells per spacing and proration unit.

(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.



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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