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New Mexico Oil Conservation Division  
Drawer DD  
Artesia, New Mexico 88210

Attention Les Clements

Gentlemen:

Application for Emergency Classification as Hardship Gas Well -  
Federal 34 Well No. 1, Eddy County, New Mexico

Conoco Inc. respectively requests emergency Hardship Gas Well Classification for the Federal 34 Well No. 1, located in Unit N, Section 34, T-20S, R-26E, Springs Upper Penn (Gas) Pool, Eddy County, New Mexico. This well has been shut-in in recent months due to market curtailment. The permanent waste of recoverable reserves incurred by shutting-in this well warrants a Hardship Classification, and is demonstrated by the following evidence:

1. During periods of shut-in, water encroaches toward the wellbore. The cost to restore production is significant because nitrogen and coil tubing are needed to return the well to its flowing status. The Federal 34 No. 1 production was recently restored after an extended shut-in period. It was necessary to use 2,625,000 SCF of nitrogen during a continuous period of 3 days to lift water from the wellbore. The total cost of the work was \$56,500. At current market prices, the work will payout in 4.6 months.
2. In addition to the cost factor, the permanent loss of reserves is a primary concern. Due to the large quantity of water produced from the reservoir, water will accumulate in and around the wellbore during shut-in periods. In the past, we have been able to economically unload enough water to allow the well to flow on its own. However, efforts to restore production were much more difficult this year than in past years. The amount of nitrogen increased by 3 times and the required jetting hours increased by 2 times from the past year. The cost to restore production in 1986 was 3.5 times the cost in 1985. A time will come when it will not be economical or feasible to restore production after a shut-in period. This may cause Conoco to prematurely abandon the well, and the remaining gas reserves will be lost (as is the case with Conoco's Federal 34 No. 2).