

(INDIAN BASIN-MORROW GAS (ORDER NOS. R-8170-O-1/R-2441-B) FIELD - Cont'd.)

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMMP

Section 9: S/2

Section 15: S/2

Sections 16 and 17: All

Sections 19 through 22: All

Sections 30 through 32: All

(7) At this time the applicants in this matter, Marathon Oil Company, Kerr-McGee Corporation ("Kerr-McGee"), and Santa Fe Energy Resources, Inc., operators and working interest owners in the aforementioned Indian Basin-Morrow Gas Pool, seek (i) to terminate gas prorationing for said pool, to cancel all over and under production, (ii) authority for the infill drilling of a second well within a standard 640-acre gas spacing unit, and (iii) to amend the special rules and regulations to provide for standard well locations not closer than 660 feet to the outer boundary of a spacing unit for said pool.

(8) Recent gas prorationing activity in the subject pool includes:

(a) On August 19, 1993, the New Mexico Oil Conservation Commission ("Commission") held a "gas allowable hearing" in which Kerr-McGee sought but was denied an increase in gas allowable for the Pool (see Division Order No. R-9960);

(b) Since then, the Commission has adopted a gas allowable for this pool which has resulted in the following non-marginal pool allowable per month being assigned to usually just one single non-marginal well in the pool:

Oct 93-Mar 94: 16,947 MCF/Mo.

Apr 94-Sep 94: 15,469 MCF/Mo.

Oct 94-Apr 95: 16,000 MCF/Mo.

Apr 95-Sep 95: 16,000 MCF/Mo.

Oct 95-Mar 96: 22,304 MCF/Mo.

Apr 96-Oct 96: 15,674 MCF/Mo.

(c) In August, 1995, and again in March, 1996 Marathon balloted all operators in the subject pool and determined that no operator opposed terminating prorationing for the Indian Basin-Morrow Gas Pool; and,

(d) On February 15, 1996 the Commission held its "Gas Allowable Hearing" at which Marathon and Kerr-McGee advised the Commission that they were seeking to terminate prorationing in this pool.

(9) At the time of the hearing in this case, evidence was presented that Gas Prorationing for the Indian Basin-Morrow Gas Pool should now be terminated at this time for reasons which include:

(a) Since the institution of prorationing for this pool in 1963, there has been substantial changes in the pool production, development, gas purchasing and marketing practices and other factors affecting the oil and gas industry which make prorationing of the product from this pool no longer necessary;

(b) Market demand for gas currently exceeds deliverability from the pool and for its expected remaining life the total deliverability of the wells in the pool is not expected to exceed market demand for gas produced from the pool;

(c) Currently there are 9 producing wells in the pool with 5 wells classified as marginal and 4 wells classified as non-marginal;

(d) 100% of the operators of both marginal and non-marginal wells in the pool support the termination of prorationing in the pool;

(e) There are no wells in the pool which are underproduced because of a lack of market for the gas from wells;

(f) Geologic and engineering calculations establish that the higher capacity wells are draining less than 320 acres and therefore the termination of prorationing for the pool will not give the non-marginal wells any unfair advantage over the marginal wells;

(g) Termination of prorationing for the pool will result in increased ultimate recovery from the pool thereby preventing waste;

(h) Production of the non-marginal wells is currently being restricted by the proration system assignment of allowable for those wells and not by a lack of market for that production;

(i) The Division's practice of using the pool's production for the prior 6-month proration period as the main indication of actual market demand by which it sets allowable has not kept pool production in line with actual market demand because when allowable levels and well capabilities are such that a well attempting to meet its market demand hits the six times limit in two months or less, it will be curtailed by the time the allowable has a chance to reflect the increased market demand;

(j) The current proration system for the pool lacks the flexibility to resolve the problem by simply producing the non-marginal wells at rates in excess of the current allowable and causing the future allowable to be adjusted upward to reflect actual market demand and now most non-marginal wells are at least six times overproduced;

(k) The current allowable of 688 MCFPD is too low and does not accurately reflect the actual market demand for gas from the pool;

(l) While the current Commission has granted increases in allowable for certain prorated pools in Southeastern New Mexico, simply assigning more allowable to the pool would provide only temporary and partial incentives for additional production, drilling and workover activities. Such adjustments will not provide a long term reliable solution because the Operators are not assured that such practice will continue and the opportunity to produce wells without allowable restrictions provides an economic incentive necessary to encourage further drilling in the pool;

(m) Because the pipeline companies in the pool which used to be the purchasers of a substantial volume of gas produced are now transporters and not purchasers, the potential for non-ratable takes by the pipelines no longer exists and proration in this pool is no longer justified on that basis;

(n) Because there is only one non-standard proration unit in the pool and its well no longer produces, there exists no basis for continuing prorationing of the pool based upon the advantage a non-standard sized proration and spacing unit might theoretically have over standard sized spacing units;

(o) Because there are no spacing units that currently have producing more than one well per 320 acres, prorationing can be terminated and spacing maintained at 640 acres with authorization for a second "infill" well;

(q) All current unorthodox well locations are for wells which are no longer producing in this pool and thus is not a basis for continuing proration for the pool;

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(r) Cancellation of over and under production from any gas spacing and proration unit will not create the potential for drainage which is not equalized by counter-drainage;

(s) Termination of prorationing will not cause the non-marginal wells if allowed to produce at capacity to satisfy more than their share of the market and thereby displace or deny a market for the marginal wells; and

(t) Termination of prorationing will not cause the high capacity wells, if allowed to produce at capacity, to take more than their share of the remaining gas reserves to the disadvantage of the marginal wells' gas proration units nor will this cause marginal wells to be prematurely abandoned.

(10) At the time of the hearing in this case, evidence was presented that authorization of infill drilling of a second well on a standard 640-acre gas spacing and proration unit and the amendment of the current special pool rules for this pool to provide for standard gas well locations not closer than 660 feet to the outer boundary of a spacing unit are necessary because:

(a) Production from the Morrow formation in this area is from many separate stringers which vary greatly in areal extent, porosity, and thickness;

(b) These stringers are not continuous across the pool; and,

(c) There are recoverable gas reserves underlying each of the spacing units within this pool which might not otherwise be recovered unless greater flexibility is provided for standard well locations and provision is made for increasing the density to greater than one well per 640-acre spacing unit.

(11) However, such a request for greater flexibility for well locations in this instance causes an inconsistency along the Pool's boundary lines where spacing and well location requirements are governed by Rule 104 of the "New Mexico Oil Conservation Division General Rules and Regulations" which provides for 320-acre spacing for gas wells in south-east New Mexico (Lea, Chaves, Eddy, and Roosevelt Counties) of Pennsylvanian age or older with wells to be no closer than 660 feet to the nearest side boundary (one of the outer boundaries running lengthwise to the tract's greatest overall dimensions) of the dedicated tract nor closer than 1650 feet from the nearest end boundary (one of the outer boundaries perpendicular to a side boundary and closing the tract across its least

overall dimension) nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary. Such inconsistency could result in an offsetting operator of Morrow interest outside of the Indian Basin-Morrow Gas Pool unable to adequately counter-drain a well that is legally offsetting his acreage by a distance of 660 feet with a legal well a minimum distance of 1650 feet from the common boundary line separating the two spacing units. Therefore, a buffer-zone of one-half mile should extend beyond the Indian Basin-Morrow Gas Pool whereby a well could be drilled on a standard 320-acre gas spacing and proration unit:

(a) no closer than 660 feet to the nearest side boundary (as defined above) of the 320 acres therein dedicated to said well;

(b) nor closer than 660 feet from the nearest end boundary (as defined above) of said dedicated tract;

(c) nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary.

(12) No other operator and/or interest owner appeared at the hearing in opposition to the application.

(13) Approval of this application will afford the applicants and all affected interest owners the opportunity to produce their just and equitable share of the hydrocarbons in these Morrow formations and will otherwise prevent waste and protect correlative rights.

(14) Approval of Marathon's request will allow the interest owners the opportunity to economically recover their share of the oil and gas in the subject pool, will not reduce ultimate recovery from the subject pool, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Marathon Oil Company ("Marathon"), Kerr-McGee Corporation ("Kerr-McGee"), and Santa Fe Energy Resources, Inc. seeking an order terminating gas prorationing in the Indian Basin-Morrow Gas Pool in portions of Township 21 South, Ranges 23 and 24 East, NMPM, Eddy County, New Mexico is hereby granted effective August 1, 1996.

IT IS FURTHER ORDERED THAT:

(2) Effective August 1, 1996, all allowable established for the Indian Basin-Morrow Gas Pool, including any accumulated over and under production shall be canceled and considered null, void, and of no effect whatsoever.