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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:

J-22-27-6
#158M

CASE NO. 10309
Order No. R-9539

JUL 01 1991
OIL CON. DIV
DIST. 3

APPLICATION OF UNION OIL COMPANY OF
CALIFORNIA, D/B/A/ UNOCAL, FOR SPECIAL
GAS ALLOWABLE, RIO ARRIBA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 30, 1991, at Santa Fe, New Mexico, before Examiner Jim Morrow.

NOW, on this 27th day of June, 1991, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Unocal, seeks an exception to the provisions of Division Order No. R-8170, as amended, establishing a special gas allowable rate of 500 MCF of gas per day from the Basin-Dakota Pool and 500 MCF of gas per day from the Blanco-Mesaverde Pool for three proposed wells to be drilled in the SE/4 of Section 22 and the NW/4 of Section 20, Township 27 North, Range 6 West and in the NW/4 of Section 1, Township 26 North, Range 7 West, NMPM, Rio Arriba County, New Mexico. The wells would be located within Unocal's Rincon Unit Area.

(3) All three wells proposed by Unocal would be dual completions, a total of six completions. Two would be Basin-Dakota, Blanco-Mesaverde duals and the third would be a Basin-Dakota, Largo-Gallup dual. Unocal is asking for a special allowable of 500 MCF per completion for each of the five prorated gas pool completions (Basin-Dakota or Blanco-Mesaverde). The Largo-Gallup completion is not included in the application since the Largo-Gallup is not a prorated gas pool.

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(4) Unocal's witness presented the following comments concerning the application. Unocal has a development plan for the Rincon Unit which includes the drilling of 82 new wells over a period of several years. The special allowable for the three proposed new wells would provide economic justification for the three wells and would enable Unocal to gather current performance data to assist in the evaluation of the 82-well program. Because of poor economics for new wells, Unocal has not drilled a new well in the Rincon Unit since 1981. The three wells would be located in the interior of the Rincon Unit and would therefore not drain gas from offset leases. The application would prevent waste by providing for additional development of gas reserves. Additional producing capacity would be developed to meet the demand to be provided by planned additional transportation capacity from the area.

(5) Unocal's witness presented data indicating that gas reserves of 126.4 BCF would be developed by the 82-well program.

(6) Data was also presented by the applicant to show that allowables have been and are expected to be less than producing capacity of the Basin-Dakota and Blanco-Mesaverde pools. New wells would be restricted for 7 to 10 years.

(7) Economic calculations for the three wells were submitted by Unocal to show that without special allowables, return on investment would range from 16.4% to 29.7% and from 21.7% to 36.1% with the special allowable. The three wells would pay out in from 3.4 to 5.8 years without the special allowable and from 2.8 to 4.2 years with the special allowable.

(8) Unocal's witness testified that the Basin-Dakota, Largo-Gallup dual completion will be drilled even if the special allowable is not approved. Three other similar wells would also be drilled.

(9) Gas Company of New Mexico and Sunterra Gas Gathering Company appeared at the hearing and objected to the application. Their witness testified that the proposal deviates from established OCD procedures, that the requested allowables are too high and that correlative rights protection, waste prevention, and the stability of the proration system would not be served by granting the application.

(10) The Aztec office of the New Mexico Oil Conservation Division (Aztec) also appeared at the hearing in opposition to the application. The witness for Aztec presented information to show that past Rincon Unit production has not equaled the allowable rate. Aztec also objected to the application because it does not offer an incentive which could be applied uniformly to all operators within the pool.

(11) Data presented by the applicant did not show that the special allowables are necessary to provide economic justification for the drilling of the three proposed wells. One of the proposed wells and three other Rincon Unit Wells will apparently

be drilled even if this application is not approved. The drilling of these four wells will allow Unocal to gather current performance data with which to evaluate the planned 82-well program.

(12) Unocal's presentation did show that an allowable increase would provide incentive for new drilling, reserves development, and producing capacity increases in the area. However, allowable increases based on Unocal's investment requirements do not appear to be appropriate. OCD Statewide Rule 601 provides that allowable production shall be allocated on a reasonable basis recognizing correlative rights. The use of individual company investment requirements as a basis for allowables, especially if similar treatment were requested and received by others, would appear to be contrary to the intent of the above rule.

(13) Unocal's request for increased allowables based on their investment requirements should be denied.

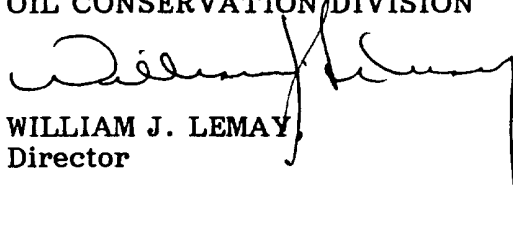
IT IS THEREFORE ORDERED THAT:

(1) The application of Union Oil Company of California, d/b/a/ UNOCAL, for special gas allowables for three wells to be drilled and completed in the Basin-Dakota and Blanco-Mesaverde Pools is hereby denied.

(2) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONED at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY,
Director

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