

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. 11206
ORDER NO. R-10318

**APPLICATION OF STRATA PRODUCTION COMPANY
FOR POOL CREATION, THE PROMULGATION OF
SPECIAL POOL RULES, AND FOR AN UNORTHODOX
OIL WELL LOCATION, LEA AND CHAVES COUNTIES,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 16, 1995 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 1st day of March, 1995 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, Strata Production Company ("Strata"), seeks the creation of a new pool for the production of oil from the Devonian formation underlying the following described area:

CHAVES COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM
Section 36: E/2 E/2

TOWNSHIP 13 SOUTH, RANGE 31 EAST, NMPM
Section 1: Lot 1 and SE/4 NE/4

LEA COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM

Section 31: Lots 1 through 4

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM

Section 6: Lots 4 and 5.

(3) Applicant further seeks the promulgation of special poolwide rules and regulations therefor including provisions for 80-acre oil spacing and proration units and designated well location requirements.

(4) The closest Devonian production in this area is from the East Caprock-Devonian Pool comprising all or portions of Sections 2, 11, 14, and 23, of Township 12 South, Range 32 East, NMPM, Lea County, New Mexico, which is currently governed by Statewide Rule 104.C(1) requiring 40-acre spacing and proration units and well locations to be no closer than 330 feet to the outer boundary of a designated tract.

(5) The applicant presented extensive geologic testimony based on "three-dimensional" seismic and the extrapolation of well log analysis from two wellbores that penetrated this interval, one in Section 31, Township 12 South, Range 32 East, NMPM, Lea County, New Mexico and in Section 13, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico. Said data indicates a small narrow structure formed by a fault block with its highest point located in the middle of the 80 acres comprising the E/2 NE/4 of said Section 36, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico.

(6) As a discovery well for this pool Strata is seeking to drill its Faisan Well No. 1 at an unorthodox oil well location 1435 feet from the North line and 757 feet from the East line (Unit H) of said Section 36 with the E/2 NE/4 of said Section 36 dedicated to said well to form a standard 80-acre oil spacing and proration unit for said pool under the proposed rules. The evidence indicates that a well drilled at the proposed unorthodox location would intersect this Devonian feature at the most advantageous position on the structure thereby increasing the likelihood of obtaining commercial production.

(7) Even though the data currently available and the geological evidence presented at the hearing is somewhat thorough and compelling, with no engineering data to show flow parameters, reservoir characteristics, drainage, or even the existence of producible hydrocarbons, a pool creation and the promulgation of special rules therefor is premature at this time. Any such determination should be postponed until such time as adequate engineering data can be obtained from the proposed well.

(8) Strata owns the rights to develop the leases immediately offsetting the E/2 NE/4 of said Section 36 to the east and west, further no other off setting mineral interest owner or interested party appeared at the hearing in opposition to this application.

(9) The proposed Faisan Well No. 1, being properly classified a "wildcat well" and governed under the provisions of Division General Rule 104.B(1)(b), should have designated in conjunction to it the standard 40-acre drilling tract comprising the quarter-quarter section that the well is located on (SE/4 NE/4).

(10) Approval of the unorthodox portion of this application will afford the applicant the opportunity to produce its just and equitable share of the oil in the Devonian formation, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise serve to prevent waste.

(11) In the absence of an exploratory unit covering the E/2 NE/4 of said Section 36 and to adequately assure that correlative rights are being protected in this instance, this matter should be reopened at an examiner hearing on or before September, 1995, at which time the operator or operators of Devonian oil wells within the boundary of the proposed pool should be prepared to appear and supplement the testimony in this case with adequate engineering data to promulgate the proposed special rules for production out of the aforementioned Devonian structure, or to show that proper notice has been given to continue operating the proposed well from the approved unorthodox oil well location on the 40-acre oil spacing and proration unit comprising the SE/4 NE/4 (Unit H) of said Section 36 without a penalty based on footage from the nearest off-setting lease line.

IT IS THEREFORE ORDERED THAT:

(1) The application of Strata Production Company ("Strata") for the creation of a new pool for the production of oil from the Devonian formation underlying the following described area:

CHAVES COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 31 EAST, NMPM
Section 36: E/2 E/2

TOWNSHIP 13 SOUTH, RANGE 31 EAST, NMPM
Section 1: Lot 1 and SE/4 NE/4

LEA COUNTY, NEW MEXICO
TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM
Section 31: Lots 1 through 4

TOWNSHIP 12 SOUTH, RANGE 32 EAST, NMPM
Section 6: Lots 4 and 5;

and the promulgation of special poolwide rules and regulations therefor including provisions for 80-acre oil spacing and proration units and designated well location requirements is hereby postponed until such time as adequate engineering data can be obtained to support such wider spacing.

IT IS HOWEVER ORDERED THAT:

(2) Strata is authorized to drill its Faisan Well No. 1 at an unorthodox oil well location 1435 feet from the North line and 757 feet from the East line (Unit H) of Section 36, Township 12 South, Range 31 East, NMPM, Chaves County, New Mexico, to a depth sufficient to penetrate the Devonian formation and to perform drainage test and to accumulate reservoir data in preparation for the reopening of this matter.

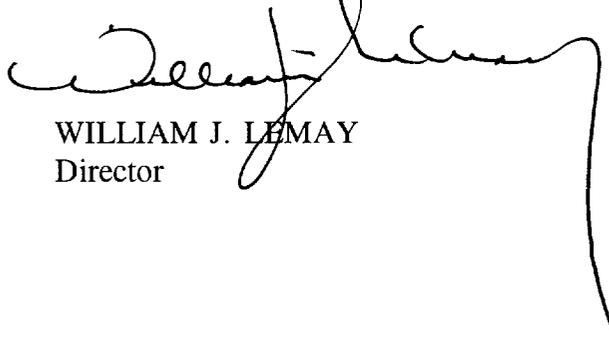
(3) The SE/4 NE/4 of said Section 36 shall be dedicated to said well forming a standard statewide 40-acre oil drilling tract for a wildcat oil well.

(4) This case shall be reopened at an examiner hearing on or before September, 1995, at which time the operator or operators of Devonian oil wells within the boundary of the proposed pool shall be prepared to appear and supplement the testimony in this case with adequate engineering data to promulgate the proposed special rules for production out of the Devonian formation, or to show that proper notice has been given to continue operating the proposed well from the approved unorthodox oil well location on the 40-acre oil spacing and proration unit comprising the SE/4 NE/4 (Unit H) of said Section 36 without a penalty based on footage from the nearest off setting lease line.

(5) 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

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