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cc

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

August 2, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Devon Energy Production Company, L.P.
c/o W. Thomas Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

Administrative Order NSL-5089 (BHL)

Dear Mr. Kellahin:

Reference is made to the following: (i) your application on behalf of the operator, Devon Energy Production Company, L.P. ("Devon"), that was submitted to the New Mexico Oil Conservation Division ("Division") on June 29, 2004 (*administrative application reference No. pSEM0-418231425*); and (ii) the Division's records in Santa Fe: all concerning Devon's proposed Red Bull "31" State Well No. 1 to be drilled vertically from an unorthodox gas well location 1300 feet from the South line and 2610 feet from the West line (Unit N) of Section 31, Township 23 South, Range 35 East, NMPM, Lea County, New Mexico, down to the Atoka formation, kicked-off to the west, and directionally drilled to a targeted bottomhole location in the Morrow formation at a measured depth of 14,497 feet (14,400 TVD) feet 1300 feet from the South line and 2320 feet from the East line (Unit O) of Section 31.

It is the Division's understanding that Devon intends to test both the Atoka and Morrow formations for gas production underlying Lots 3 and 4, the E/2 SW/4, and the SE/4 (S/2 equivalent) of Section 31, being a standard 319.32-acre lay-down gas spacing unit, pursuant to Division Rule 104.C (2), for the Undesignated Antelope Ridge-Atoka Gas Pool (70360), Undesignated Antelope Ridge-Morrow Gas Pool (70440), and Undesignated West Cinta Roja-Morrow Gas Pool (96602).

It is further understood from the information provided that the two proposed subsurface locations will allow Devon to penetrate: (i) a small structural feature within the Atoka formation; and (ii) a Morrow sand stringer, that may not otherwise be accessible from a single wellbore drilled at the closest location considered to be standard for deep gas within southeast New Mexico [see Division Rule 104.C (2) (a)].

In accordance with Division Rules 111.A (7), 111.C (2), and 104.F (2), the planned directional drilling to the above-described subsurface Atoka and Morrow gas well locations for Devon's proposed Red Bull "31" State Well No. 1 underlying the S/2 equivalent of Section 31 is hereby approved.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Michael E. Stogner
Engineer/Hearing Officer

MS/mes

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe

REMARKS: Should a successful Morrow completion within this well result in that production being placed in the Cinta Roja-Morrow Gas Pool (75000), the operator of this well shall make an application with the Division for an amendment of this order pursuant to the "*Special Rules and Regulations for the Cinta Roja-Morrow Gas Pool*," pursuant to Division Order No. R-3161, issued in Case No. 3492 on December 6, 1966, and the applicable provisions of Division Rules 104.F and 1207.A (2).

CMD : ONGARD 09/16/04 13:04:45
 OG6CLOG C105-WELL COMPLETION OR RECOMP CASING LOG OGOMES -TPEO

OGRID Identifier : 6137 DEVON ENERGY PRODUCTION COMPANY, LP
 Prop Identifier : 34087 RED BULL 31 STATE
 API Well Identifier : 30 25 36798 Well No : 001
 Surface Locn - UL : N Sec : 31 Twp : 23S Range : 35E Lot Idn :
 Multiple comp (S/M/C) : TVD Depth (Feet) : MVD Depth (Feet) :
 Spud Date : P/A Date :
 Casing/Linear Record:

S Size Grade Weight Depth(ft) Depth(ft) Hole Size Cement ---- TOC ----
 (inches) (lb/ft) Top-Liner Bot-Liner (inches) (Sacks) (feet) Code

E0004: No matching record found. Enter data to create.

PF01 HELP PF02 PF03 EXIT PF04 GoTo PF05 PF06 CONFIRM
 PF07 PF08 PF09 COMMENT PF10 TLOG PF11 PF12

CMD : ONGARD 09/16/04 13:04:51
 OG6C101 C101-APPLICATION FOR PERMIT TO DRILL OGOMES -TPEO

OGRID Idn : 6137 API Well No: 30 25 36798 APD Status(A/C/P) : A
 Opr Name, Addr: DEVON ENERGY PRODUCTION COMPANY, Aprvl/Cncl Date : 08-02-2004

20 N BROADWAY
 STE 1500
 OKLAHOMA CITY, OK 73102

Prop Idn: 34087 RED BULL 31 STATE Well No: 1

| U/L | Sec | Township | Range | Lot | Idn | North/South | East/West |
|--------------|-----|------------|-------|------|-----|--------------|--------------|
| Surface Locn | : N | 31 | 23S | 35E | | FTG 1300 F S | FTG 2610 F W |
| OCD U/L | : N | API County | | : 25 | | | |

Work typ(N/E/D/P/A) : N Well typ(O/G/M/I/S/W/C) : G Cable/Rotary (C/R) : R
 Lease typ(F/S/P/N/J/U/I) : S Ground Level Elevation : 3435

State Lease No: Multiple Comp (S/M/C) :
 Prpsd Depth : 14400 Prpsd Frmtn : Morrow

E0009: Enter data to modify record
 PF01 HELP PF02 PF03 EXIT PF04 GOTO PF05 PF06 CONFIRM
 PF07 PF08 PF09 PRINT PF10 C102 PF11 HISTORY PF12

| | | |
|--|--|-------------|
| District I 1625 N. French Dr., Hobbs, NM 88240 | State of New Mexico | Form C-101 |
| District II 1301 W. Grand Ave., Artesia, NM 88210 | Energy, Minerals and Natural Resources | Permit 1177 |
| District III 1000 Rio Brazos Rd., Aztec, NM 87410 | Oil Conservation Division | |
| District IV 1220 S. St Francis Dr., Santa Fe, NM 87505 | 1220 S. St Francis Dr. Santa Fe, NM 87505 | |

APPLICATION FOR PERMIT TO DRILL

| | | |
|---|------------------------------------|----------------------------|
| Operator Name and Address DEVON ENERGY PRODUCTION COMPANY, LP 20 N. Broadway Oklahoma City, OK 73102 | | OGRID Number 6137 |
| | | API Number 30-025-36798 |
| Property Code 34087 | Property Name RED BULL 31 STATE | Well No. 001 |

Surface Location

| UL or Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|-----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| N | 31 | 23S | 35E | N | 1300 | S | 2610 | W | Lea |

Bottom Holes

Pool: MORROW

| UL or Lot | Section | Township | Range | Lot Idn | Feet From | N/S Line | Feet From | E/W Line | County |
|-----------|---------|----------|-------|---------|-----------|----------|-----------|----------|--------|
| O | 31 | 23S | 35E | O | 1300 | S | 2320 | E | Lea |

| | | | | |
|-----------------------|-------------------------|---------------------|---------------------|--------------------------------|
| Work Type New Well | Well Type GAS | Cable/Rotary | Lease Type State | Ground Level Elevation 3435 |
| Multiple N | Proposed Depth 14400 | Formation Morrow | Contractor | Spud Date 07/15/2004 |

Proposed Casing and Cement Program

| Type | Hole Size | Casing Size | Casing Weight/ft | Setting Depth | Sacks of Cement | Estimated TOC |
|--------|-----------|-------------|------------------|---------------|-----------------|---------------|
| Surf | 17.5 | 13.375 | 54.5 | 870 | 660 | 0 |
| Int1 | 12.25 | 9.625 | 40 | 5270 | 1464 | 0 |
| Prod | 8.75 | 7 | 26 | 12600 | 442 | 9500 |
| Liner1 | 6.125 | 4.5 | 13.5 | 14400 | 280 | 12300 |

Casing/Cement Program: Additional Comments

13 3/8 csg- cmt lead w/360 sx Poz, tail w/300 sx Cl C. 9 5/8 csg- cmt lead w/1164 sx Poz, tail w/300 sx Poz 7 csg- cmt w/442 sx Super H 6 1/8 liner - cmt w/280 sx Class H Mud: 0-870 8.4-9.4 32-34 vis, N/C Fluid loss 870-5270 9.9-10.1 28-29 vis N/C fluid loss 5270-12600 8.5-10.0 28-29 vis, N/C fluid loss 12600-14400 12.0-13.5 34-40 vis 8-6cc fluid loss

Proposed Blowout Prevention Program

| Type | Working Pressure | Test Pressure | Manufacturer |
|------------|------------------|---------------|--------------|
| Hydril | 5000 | 5000 | |
| Double Ram | 10000 | 10000 | |
| Pipe | 10000 | 10000 | |

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Electronically Signed By: Linda Guthrie

Title: Regulatory Specialist

Date: 07/07/2004

Phone: 405-228-8209

OIL CONSERVATION DIVISION

Electronically Approved By: Paul Kautz

Title: Geologist

Approval Date: 08/02/2004

Expiration Date: 08/02/2005

Conditions of Approval:

There are conditions. See Attached.

DISTRICT I
1825 N. French Dr., Hobbs, NM 88240

DISTRICT II
811 South First, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Ed., Aztec, NM 87410

DISTRICT IV
2040 South Pacheco, Santa Fe, NM 87506

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised March 17, 1999

Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

2040 South Pacheco
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

| | | |
|-----------------------|---|--------------------|
| API Number | Pool Code | Pool Name |
| Property Code 6137 | Property Name RED BULL "31" STATE | Well Number 1 |
| OGRID No. | Operator Name DEVON ENERGY PRODUCTION COMPANY LP | Elevation 3435' |

Surface Location

| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------|---------|----------|-------|---------|---------------|------------------|---------------|----------------|--------|
| N | 31 | 23 S | 35 E | | 1300' | SOUTH | 2610' | WEST | LEA |

Bottom Hole Location If Different From Surface

| UL or lot No. | Section | Township | Range | Lot Idn | Feet from the | North/South line | Feet from the | East/West line | County |
|---------------------------|-----------------|--------------------|-----------|---------|---------------|------------------|---------------|----------------|--------|
| 0 | 31 | 23 S | 35 E | | 1300' | SOUTH | 2320' | EAST | LEA |
| Dedicated Acres 319.32 | Joint or Infill | Consolidation Code | Order No. | | | | | | |

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

| | |
|--|---|
| | <p>OPERATOR CERTIFICATION</p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Linda Guthrie</i> Signature</p> <p>Linda Guthrie Printed Name</p> <p>Regulatory Specialist Title</p> <p>06/28/04 Date</p> |
| | <p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>June 21, 2004 Date Surveyed</p> <p><i>GARY L. JONES</i> Signature & Seal of Professional Surveyor</p> <p>W.O. No. 4376</p> <p>Certificate No. Gary Jones 7977</p> <p>JLP BASIN SURVEYS</p> |
| | |
| | |

**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. 13300
ORDER NO. R-3161-A**

**APPLICATION OF HEC PETROLEUM, INC. TO AMEND THE SPECIAL RULES
AND REGULATIONS FOR THE CINTA ROJA-MORROW GAS POOL, LEA
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 22, 2004, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 7th day of September, 2004 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) Division Order No. R-2985, issued in Case No. 3319 and dated October 18, 1965, created and defined the Cinta Roja-Morrow Gas Pool (75000) for the production of gas from the Morrow formation. The horizontal limits for this pool currently include the following described lands in Lea County, New Mexico:

TOWNSHIP 24 SOUTH, RANGE 35 EAST, NMPM

| | |
|------------------------|------|
| Section 4: | All |
| Sections 8 through 10: | All. |

(3) The Cinta Roja-Morrow Gas Pool is an "unprorated gas pool" not subject to Part H of the Division's statewide rules and regulations entitled "*Gas Proration and Allocation*" (Rules 601 through 605). However, the Cinta Roja-Morrow Gas Pool is subject to: (i) the "*Special Rules and Regulations for the Cinta Roja-Morrow Gas Pool*," as established by Division Order No. R-3161, issued in Case No. 3492 and dated December 6,

1966, which require standard 640-acre gas spacing and proration units, with wells to be located no closer than 1650 feet to the outer boundary of the section (spacing unit) nor closer than 330 feet to any quarter-quarter section line or subdivision inner boundary; and (ii) Division Rule 104.D (3), which restricts the number of producing wells within a single gas spacing unit within non-prorated pools to only one (see official notice to all operators submitted by the Division Director on October 25, 1999). Producing wells within this pool are allowed to produce at capacity.

(4) The applicant, HEC Petroleum, Inc. ("HEC"), seeks to amend the rules and regulations currently governing the Cinta Roja-Morrow Gas Pool to provide:

- (a) the option to drill a well on each quarter section within a standard 640-acre gas spacing unit; and
- (b) the relaxation of the setback requirements for wells, such that wells can be located no closer than 660 feet to a quarter section line nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(5) Robert L. Landreth of Midland, Texas, an operator and owner of certain oil and gas leasehold working interests within the boundaries of the Cinta Roja-Morrow Gas Pool, appeared at the hearing through legal counsel, but offered no testimony.

(6) The evidence presented and Division records show that there are only four wells, as described below, within the Cinta Roja-Morrow Gas Pool in Township 24 South, Range 35 East, NMPM, Lea County, New Mexico:

| API No. | Operator Well Name and Number | Depth, Location, Unit, Spaced, and Section | Date (Year of First Production) |
|--------------|---|---|------------------------------------|
| 30-025-26180 | McKay Oil Corporation Woolworth Ranch Unit Well No. 1 | 1980' FS & EL (J) Section 4 | 1980 |
| 30-025-27351 | HEC Petroleum, Inc. Federal "CR-8" Well No. 1 | 1980' FS & EL (J) Section 8 | 1981 |
| 30-025-20756 | Chesapeake Operating, Inc. Custer Mountain Unit Well No. 1 | 1980' FS & WL (K) Section 9 | 1965 |
| 30-025-26080 | Robert E. Landreth Cinta Roja "10" Well No. 1 | 1980' FN & WL (F) Section 10 | 1980 |

(7) The applicant presented geologic and engineering evidence demonstrating that: (i) one well per 640 acres is insufficient to adequately deplete the remaining gas reserves underlying the Cinta Roja-Morrow Gas Pool; and (ii) infill drilling with one well per quarter section within this pool will provide the operators the opportunity to recover additional gas reserves, which may otherwise not be recovered by the existing wells, thereby preventing waste.

(8) The applicant's proposal to allow up to four wells per section is supported by its geologic and engineering evidence, and is consistent with current Division rules governing Morrow gas development in southeast New Mexico. However, certain provisions should be included in these proposed rule changes in order to ensure consistency with the rules currently governing deep gas pools in southeast New Mexico on 320-acre spacing.

(9) The proposed well setback requirements will allow for greater flexibility in locating infill gas wells

(10) Pursuant to the applicable Division rules the applicant notified all operators and interest owners within the area affected by this application. No operator or interest owner appeared at the hearing in opposition to the application.

(11) Approval of the application is in the best interest of conservation, prevention of waste and protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of HEC Petroleum, Inc. ("HEC") to amend the "*Special Rules and Regulations for the Cinta Roja-Morrow Gas Pool*," currently comprising Sections 4, 8, 9, and 10, Township 24 South, Range 35 East, NMPM, Cinta Roja-Morrow Gas Pool (75000), Lea County, New Mexico, is hereby approved.

(2) Rules 4 and 5 of the "*Special Rules and Regulations for the Cinta Roja-Morrow Gas Pool*," are hereby amended to read in their entirety as follows:

"RULE 4(a): The initial well within a gas spacing and proration unit shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. Each infill well within an existing gas spacing and proration unit shall be

located in a quarter section that does not contain a producing Morrow gas well and shall be located with respect to the assigned unit boundaries as described above."

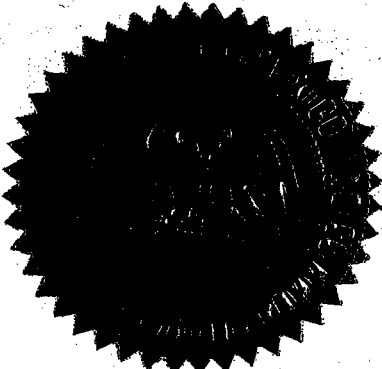
"**RULE 4 (b):** No more than one Morrow gas well shall be located within a single governmental quarter section. Any deviation from this well density requirement shall be authorized only after hearing."

"**RULE 4 (c):** A land plat (NMOCD Form C-102) accompanying the "Application for Permit to Drill" (NMOCD Form C-101 or federal equivalent) for each subsequent infill well within an existing gas spacing unit shall include the location (well name, footage location, API number) of all existing Morrow gas wells on the unit plus the proposed new infill well."

"**RULE 5:** The Division Director may grant an exception to the footage requirements for a Morrow gas well of Rule 4 (a) above without hearing when an application has been duly filed under the applicable provisions of Division Rule 104.F."

(3) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P. E.
Director