

**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. 13273
ORDER NO. R-12210**

**APPLICATION OF MERIT ENERGY COMPANY FOR AN EXCEPTION TO
DIVISION RULE 104.C (2) (b), EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on May 27, 2004, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 10th 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) The applicant, Merit Energy Company ("Merit" or "Applicant"), seeks an exception to Division Rule 104.C (2) (b), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, in order to locate and complete two Strawn and two Morrow gas producing wells within the same quarter section of a single standard 320-acre stand-up gas spacing unit comprising the W/2 of Section 34, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico.

(3) This unit is within the boundaries of both the Happy Valley-Strawn Gas Pool (78070) and the Happy Valley-Morrow Gas Pool (78060) and both are currently governed by Division Rule 104.C (2), which states:

"(2) 320-Acre Spacing applies to any deep gas well in Lea, Chaves, Eddy or Roosevelt County, defined as a well that is projected to be drilled to a gas producing formation or is within a defined gas pool in the Wolfcamp or an older formation. Such well shall be located on a spacing unit consisting of

320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U.S. Public Land Surveys provided that:

- (a) the initial well on a 320-acre unit is 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;*
- (b) only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and is no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and*
- (c) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well."*

(4) Either from the evidence submitted at the hearing or according to the Division's records:

- (a) Merit has been the operator of the State "Q" Com. Well No. 1 (API No. 30-015-20813), located 2235 feet from the South line and 660 feet from the West line (Unit L) of Section 34, since July 1, 1992.
- (b) This well is currently completed in and producing from the Happy Valley-Strawn Gas Pool.
- (c) The W/2 of Section 34, being a standard 320-acre stand-up deep gas spacing unit for the Happy Valley-Strawn Gas Pool pursuant to Division Rule 104.C (2), is dedicated to this well.
- (d) This well was initially drilled in 1973 by The Superior Oil Company of Midland, Texas to a total depth of 11,476 feet and completed in the Happy Valley-Morrow Gas Pool.

(e) Last Morrow gas production from this well occurred in November, 1992. Cumulative Morrow production from this well is 993,873 MCF of gas and 492 barrels of condensate.

(f) In the spring of 1994 Merit recompleted this well up-hole into the Strawn formation. The current rate of Strawn gas production from this well is 237 MCF per day.

(g) At the time this well was initially drilled and completed in the Morrow formation and when Merit recompleted from the Morrow interval to the Strawn formation, this location was considered to be standard for a deep gas well within the subject 320-acre spacing unit.

(h) By Division Administrative Order DHC-3275, dated May 4, 2004, Merit was granted authorization to commingle gas production from both the Happy Valley-Strawn Gas and Happy Valley-Morrow Gas Pools within the wellbore of the above-described State "Q" Com. Well No. 1.

(5) Applicant proposes to drill its State "Q" Com. Well No. 2 within the same quarter section as its State "Q" Com. Well No. 1 (SW/4 of Section 34) at a location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 34 to a depth sufficient to penetrate the Morrow formation and dually complete this well in both the Happy Valley-Strawn Gas and Happy Valley-Morrow Gas Pools.

(6) The entire NW/4 of Section 34 is situated on the western up-slope of the Ocotillo Hills. Further there is a no-surface occupancy on the federal lands that comprise the E/2 NW/4 of Section 34, which lands are also within the Living Desert State Park.

(7) Applicant testified that a substantial amount of gas from both the Strawn and Morrow intervals has already been drained off of the NW/4 of Section 34 with the above-described State "Q" Com. Well No. 1 being located only 405 feet from the boundary that separates the SW/4 and NW/4 of Section 34.

(8) Applicant also testified that directional drilling into the NW/4 of Section 34 was not an economically viable option since the high cost of drilling directionally would likely not be offset by the gas reserves remaining under the NW/4 of Section 34.

(9) The proposed infill well will be 2,055 feet from the existing State "Q" Com. Well No. 1 and according to the Applicant's testimony, should penetrate both intervals that have either not been drained or have not been depleted by other wells within the immediate area, thereby increasing the likelihood of encountering commercial quantities of gas from both zones within the subject 320-acre unit.

(10) No affected or other interested party appeared at the hearing in opposition to this application.

(11) Approval of this application will afford Merit the opportunity to produce its just and equitable share of gas from the subject pools within this unit, is in the best interest of conservation, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Merit Energy Company ("Merit"), is hereby granted an exception to Division Rule 104.C (2) (b), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, for the following two wells to be completed within the same quarter section in both the Happy Valley-Strawn Gas Pool (78070) and the Happy Valley-Morrow Gas Pool (78060) and simultaneously dedicated to and allowed to produce concurrently from the W/2 of Section 34, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico, being a standard 320-acre stand-up deep gas spacing unit in both the Happy Valley-Strawn Gas and Happy Valley-Morrow Gas Pools:

(a) the existing State "Q" Com. Well No. 1 (API No. 30-015-20813), located 2235 feet from the South line and 660 feet from the West line (Unit L) of Section 34; and

(b) Merit's proposed State "Q" Com. Well No. 2 within the same quarter section as its State "Q" Com. Well No. 1 (SW/4 of Section 34) at a location 660 feet from the South line and 1980 feet from the West line (Unit N) of Section 34.

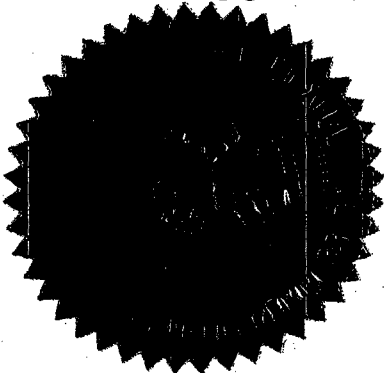
(2) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

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



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "Mark E. Fesmire". The signature is fluid and cursive.

MARK E. FESMIRE, P. E.
Director