

**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. 13411
ORDER NO. R-12315**

**APPLICATION OF PRIMERO OPERATING, INC. FOR AN EXCEPTION TO
DIVISION RULE 104C.(3), CHAVES COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 3rd, 2005 and on March 17, 2005, at Santa Fe, New Mexico, before Examiners William V. Jones and Michael E. Stogner.

NOW, on this 22nd day of March, 2005, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Primero Operating, Inc. ("Primero"), seeks approval for the following two gas wells to simultaneously produce in an existing standard 160-acre spacing and proration unit consisting of the NE/4 of Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, for production from the San Andres formation, West Cato-San Andres Gas Pool (74445):

(a) C.L. O'Brien Well No. 1 (API No. 30-005-00475) located 660 from the North line, and 660 from the East line, Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico; and the

(b) C.L. O'Brien Well No. 2 (API No. 30-005-20897) located 1980 from the North line, and 660 from the East line, Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico;

(3) Spacing and location of wells within the West Cato-San Andres Gas Pool, are governed by the statewide rule NMAC 19.15.3.104 and specifically rule 104C.(3). The West Cato-San Andres Gas Pool was established in Division Case No. 10065 with Order No. R-9271 on September 1, 1990. Currently this pool consists of the SE/4 of Section 6, the SW/4 of Section 5, the NE/4 of Section 7, and the NW/4 of Section 8.

(4) Division Rule 104.C.(3) governs gas wells in Lea, Chaves, Eddy, or Roosevelt Counties producing from formations of an age younger than the Permian Wolfcamp, and allows one well to be located on a spacing unit consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section and a legal subdivision of the U.S. Public Land Surveys and the well shall be located no closer than 660 feet to any outer boundary and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary.

(5) The location of both wells as listed in (2) above is "standard" for Permian San Andres gas production.

(6) The C.L. O'Brien Well No. 2 was completed in the San Andres P2 interval in 1990 and produced until January of 2001; at which time the C.L. O'Brien Well No. 1 was completed in the San Andres P2 and P3 intervals. Currently, well No. 2 is shut-in but Primero is proposing to add perforations in the P3 interval and put the well back on production concurrently with the C.L. O'Brien Well No. 1. Two gas producers in the San Andres in the same quarter section will require an exception to Rule 104C.(3).

(7) Division Rule 104.D.(3) provides for the Director of the Division to grant exceptions to the provisions of statewide rules or special pool rules concerning the number of wells allowed per spacing unit. Such provision for exceptions requires notice and opportunity for hearing for those affected persons as defined in Rule 1207.A.(4).

(8) No other party entered an appearance in this case. Energen Resources Corporation is the only other Division designated operator in this pool. Energen operates an offsetting San Andres gas well in the NW/4 of Section 8 but did not make an appearance or otherwise oppose this case. In addition to the C.L. O'Brien lease located in the NE/4 of Section 7, Primero operates a well in the SW/4 of Section 5 and a new well in the SE/4 of Section 6.

(9) The case was heard on February 3, 2005, then continued to allow time for corrections to the wording of the case on the dockette. All corrections had been made to the dockette by the date of the March 17, 2005 hearing.

(10) The applicant presented testimony as follows:

(a) The San Andres structure map shows this lease at a high structural position. This lease is presumed to occupy part of the gas cap for the overall San Andres oil and gas reservoir. The reservoir is on its last stage of production, with most remaining wells being marginal. The reservoir pressure in the SW/4 of Section 5 was only 280 psi in 2001, and much gas has been produced since.

(b) The C.L. O'Brien Well No. 1 is producing with the help of a pumping unit and the No. 2 well is also expected to need artificial lift.

(c) East of the West Cato-San Andres Gas Pool, the San Andres is developed on 40 acre oil well spacing. Secondary recovery has been attempted several miles to the east, but with poor results.

(d) The San Andres is typically low permeability, but no actual permeability measurements exist in this area.

(e) The new well in the SE/4 of Section 6 was recently completed at only about 60 Mcf gas per day.

(f) The Energen well in the NW/4 of Section 8 has made almost 1.5 Bcf of gas and has therefore been a very good well.

(g) The gas quality shows a high percentage of inerts (CO₂ and N₂), some H₂S, and a gas heating value of only 934 MMbtu per Mcf.

(h) Gas prices are better now than in past years, and Primero wants to produce the gas while the prices are elevated.

(i) The alternative to producing the C.L. O'Brien Well No. 2 is to abandon it as required by state rules.

(j) Both wellbores had production or attempted production from the Devonian and currently the wellbores are not in good shape to re-enter and try to produce additional Devonian oil.

(k) The C.L. O'Brien Well No. 1 also produced approximately 0.5 Bcf of gas from the Wolfcamp.

(11) The conclusions and observations of the Examiner are as follows.

(a) The C.L. O'Brien Well No. 1 was completed in January of 2001 in the P2 and P3 intervals of the San Andres at a legal location and after shutting-in the C.L. O'Brien Well No. 2. At that same time, the Sanders Well No. 1, operated by Energen in the offsetting Section 8, began a steeper decline.

(b) During presentation of this case, no attempt was made by the applicant to presume which of the two San Andres zones perforated in the C.L. O'Brien Well No. 1 was producing the majority of the gas. Both the prolific Sanders Well No. 1 and the C.L. O'Brien Well No. 1 are producing from both the P2 and P3 intervals.

(c) When shut-in in late 2000, the C.L. O'Brien Well No. 2 was at an advanced state of depletion from the P2 interval of the San Andres. The P3 interval of the San Andres at this standard gas well location may already be drained from the two offset wells. Or it may have additional reserves that would not otherwise be recovered without this workover as proposed.

(12) Approval of this application will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

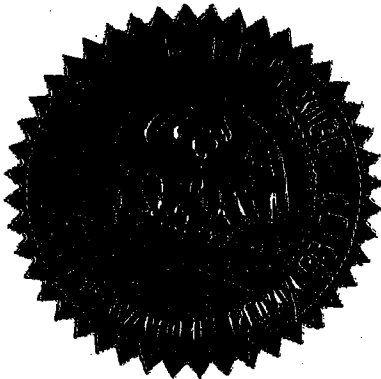
(1) The application of Primero Operating, Inc. ("Primero") is hereby approved, granting an exception to Division Rule 104.C.(3) and allowing simultaneous dedication of the following two wells to the existing standard 160-acre gas spacing and proration unit consisting of the NE/4 of Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, for production from the West Cato-San Andres Gas Pool:

(a) C.L. O'Brien Well No. 1 (API No. 30-005-00475) located 660 from the North line, and 660 from the East line, Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico; and the

(b) C.L. O'Brien Well No. 2 (API No. 30-005-20897) located 1980 from the North line, and 660 from the East line, Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico.

(2) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, reading "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director