

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. 14797
ORDER NO. R-13524

APPLICATION OF NADEL AND GUSSMAN HEYCO, LLC FOR POOL
CREATION, A DISCOVERY ALLOWABLE AND SPECIAL POOL RULES, LEA
AND EDDY COUNTIES, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on February 16, 2012, at Santa Fe,
New Mexico before Examiner Terry Warnell.

NOW, on this 26th day of March, 2012, 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) Nadel and Gussman Heyco, LLC ("Nadel and Gussman" or "Applicant")
seeks an order to: (1) define a new pool for oil production from the Delaware formation,
(2) grant a discovery allowable for the new pool, and (3) create retroactive Special Rules
including a depth bracket allowable of 300 barrels a day.

(3) At the hearing, Nadel and Gussman proposed the following described
lands within Lea and Eddy Counties, New Mexico as horizontal limits for inclusion in
this new Pool:

Township 18 South, Range 31 East, NMPM

Section 12: NE/4

Township 18 South, Range 32 East, NMPM

Section 7: NW/4

(4) Nadel and Gussman submitted testimony and exhibits including form C-109, *Application for Discovery Allowable and Creation of a New Pool*. Applicant believes it has discovered a new common source of supply and requests a new pool be created.

(5) After enquiry from the Examiner, the Hobbs District I geologist supports the creation of a new pool and agrees with the Pool name Young-Delaware, Northwest Pool (**Pool Code 97924**), with vertical limits to encompass the entire Delaware formation.

(6) No other party appeared at the hearing to oppose this application.

(7) Division Rule 19.15.15.9 NMAC, allows 40-acre spacing and proration units for oil production with wells to be located no closer than 330 feet to the outer boundary of the unit. Division Rule 19.15.20.12 NMAC provides for a top proration unit depth bracket allowable of 107 barrels of oil per day per 40-acre spacing and proration unit. Division Rule 19.15.20.13 NMAC provides for a limiting gas-oil ratio of 2000 cubic feet of gas per barrel of oil.

(8) Nadel and Gussman operates the Bola 7 Federal Well No. 5 (API No. 30-025-39841) as a producer in the Delaware formation. The well was spudded June 24, 2011 and completed July 25, 2011. It was drilled from a surface location 360 feet from the North line and 330 feet from the West line (Unit D) of Section 7, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico.

(9) Nadel and Gussman appeared at the hearing through counsel and presented the following testimony:

- A. The discovery well in this proposed Young-Delaware, Northwest Pool is the Bola 7 Federal Well No. 5 (**API No. 30-025-39841**) which has been drilled, completed and is producing from the Delaware at measured depth of 5010 to 5250 feet in the NW/4 of Section 7, Township 18 South, Range 32 East, NMPM, Lea County, New Mexico.
- B. On October 18, 2011, Nadel and Gussman spudded the second well in this proposed Young-Delaware, Northwest Pool; the Taylor 12 Federal Well No. 10 (API No. 30-015-39468) which was drilled, completed and is producing from the Delaware at measured depth of 5060 to 5166 feet in the NE/4 of Section 12, Township 18 South, Range 31 East, Eddy County, New Mexico.
- C. Nadel and Gussman is asking for the NW/4 of Section 7, Township 18 South, Range 32 East and the NE/4 of Section 12, Township 18 South, Range 31 East, Lea and Eddy Counties, to be included in the proposed Pool.

- D. Nadel and Gussman could locate no other Delaware producing wells within a one mile radius of this pool.
- E. Initial production from the discovery well ranged from 250 to 340 barrels of oil per day, and the average gas-oil ratio (GOR) is approximately 1050 standard cubic feet of gas per barrel of oil.

(10) Nadel and Gussman is the only operator of Delaware oil wells within Sections 7 and 12 or within one mile of these two sections.

(11) Nadel and Gussman's request for creation of a new oil pool to encompass vertically the entire Delaware formation and horizontally consisting initially of the NW/4 of Section 7, Township 18 South, Range 32 East and the NE/4 of Section 12, Township 18 South, Range 31 East should be granted. The new pool should be named the Young-Delaware, Northwest Pool (**Pool Code 97924**) as suggested by the Division's Hobbs district geologist.

(12) The request for 300 barrels of oil per day is reasonable, will prevent waste and protect correlative rights and should be granted.

(13) The Bola 7 Federal Well No. 5 is a bona fide discovery well in a new source of supply - the Young-Delaware, Northwest Pool and should be awarded a discovery allowable in accordance with Rule 19.15.20.16 NMAC.

IT IS THEREFORE ORDERED THAT:

(1) The application of Nadel and Gussman Heyco, LLC ("Nadel and Gussman" or "Applicant") to create a new oil pool to encompass vertically the entire Delaware formation and horizontally to consist initially of the NW/4 of Section 7, Township 18 South, Range 32 East and the NE/4 of Section 12, Township 18 South, Range 31 East, NMPM, Lea and Eddy Counties, New Mexico, is hereby granted.

(2) The new oil pool shall be named the Young-Delaware, Northwest Pool (**Pool Code 97924**).

(3) The discovery well for the Young-Delaware, Northwest Pool is the Nadel and Gussman operated Bola 7 Federal Well No. 5 (API No. 30-025-39841) completed July 25, 2011.

(4) The request for an increase of unit allowable from 107 to 300 barrels of oil per day is hereby granted.

(5) In accordance with Rule 19.15.20.16 (F) NMAC, the discovery allowable assigned to the well shall be 4992 feet x 5 barrel per foot or 24, 960 barrels of oil. This oil shall be produced over a two year period or 730 days (731 days for a leap year). Accordingly 24,960 divided by 731 is 34 barrels of oil per day. The Bola 7 Federal Well

No. 5 is hereby authorized to produce up to 334 barrels of oil per day effective for a two-year period beginning April 1, 2012 and ending April 1, 2014 per Rule 19.15.20.16. (E) NMAC.

(6) In accordance with Rule 19.15.20.16 (F) NMAC, if another well is drilled in the same spacing unit as the Bola 7 Federal Well No. 5, the allowable for that spacing unit is still 334 barrels of oil per day provided at least 34 barrels of oil per day is from the Bola 7 Federal Well No. 5. Otherwise the maximum unit allowable for the spacing unit during the discovery allowable period will be 300 barrels of oil per day plus the actual production from the Bola 7 Federal Well No. 5.

(7) **Temporary Special Rules
For The
Young-Delaware, Northwest Pool.**

Rule 1: Each well completed or recompleted in the Young-Delaware, Northwest Pool (Pool code 97924) or within one mile thereof and not nearer to or within the limits of another Delaware oil pool, shall be produced in accordance with the Special Rules hereinafter set forth.

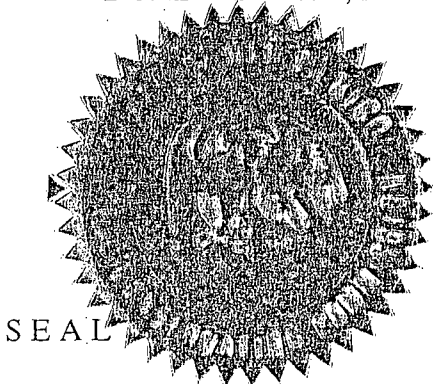
Rule 2: The allowable for a standard proration unit shall be based on a depth bracket allowable of 300 barrels of oil per day. In the event there is more than one well on a 40-acre proration unit, the operator may produce the allowable assigned to the unit from wells on the unit in any proportion.

Rule 3: All other rules shall conform to the Division's statewide rules.

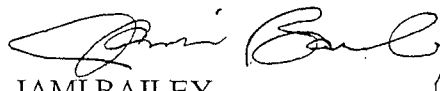
(8) These Temporary *Special Rules for the Young-Delaware, Northwest Pool* shall be effective from July 25, 2011 through July 25, 2013. These Temporary Special Rules shall expire ipso facto on July 25, 2013, unless operators in the Pool, before the expiration of these rules, demonstrate satisfactorily to the Division at a hearing set on the application of an operator in the pool, why these rules should not be rescinded.

(9) Jurisdiction of this case is 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


JAMI BAILEY
Director