

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. 14755  
ORDER NO. R-13538

APPLICATION OF PRINCIPAL PROPERTIES FOR APPROVAL OF A NON-  
STANDARD GAS SPACING UNIT, EDDY COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 1, 2011, at Santa Fe New Mexico, before Examiner William V. Jones.

NOW, on this 27<sup>th</sup> day of April, 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) Principal Properties ("Applicant") seeks approval of a non-standard 320-acre, more or less, gas spacing unit in the Morrow formation, Little Box Canyon-Morrow Gas Pool (80240), comprised of the SW/4 of Section 1, and the NW/4 of Section 12, Township 21 South, Range 21 East, NMPM, Eddy County, New Mexico.

(3) This unit is to be dedicated to the applicant's proposed Horseshoe Canyon Federal Com Well No. 1 to be vertically drilled at an unorthodox location within the SW/4 SW/4 of Section 1.

(4) The Little Box Canyon-Morrow Gas Pool (80240) has no special pool rules and is therefore governed by statewide rules for "deep" gas wells located within Southeastern New Mexico. The applicable rule is NMAC 19.15.15.10B, which states in part: "*The 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 United States public land surveys...*". This proposed gas spacing unit is unorthodox as it overlaps from Section 1 into Section 12.

(5) Applicant presented testimony at the hearing from a Landman and Geologist as follows:

- a. The SW/4 of Section 1 and the NW/4 of Section 12 consist of federal lands.
- b. Applicant is an owner within the N/2 of Section 12, owning lands within the NW/4 of Section 12.
- c. Offsetting lands to the west (Section 2) are State owned. Applicant received a letter of concern from the State Land Office stating that the well location should not encroach on those State lands.
- d. Applicant has not picked a final location for this well, but the well will likely be located within the SW/4 SW/4 of Section 1, closer than 660 feet to Section 12, but not within 660 feet of Section 2 directly to the west. The location will be chosen based on topographical reasons in negotiations with the U.S. Bureau of Land Management ("BLM") and also based on geological considerations.
- e. Because the mapped Morrow formation channel sand is located essentially on the boundaries of Section 1 and Section 12, Applicant is proposing a 320-acre gas spacing unit be created overlapping those two sections. The well would be located essentially within the center of the proposed non-standard spacing unit and should efficiently drain the lands within this spacing unit.
- f. All working interest owners within Section 1 and Section 12, as well as the State Land Office and the BLM, have been notified of this proposed non-standard gas spacing unit. Return receipts have arrived from more than 99 percent of the interests.
- g. Apache Corporation and Nadel & Gussman own working interests within this proposed gas spacing unit within Section 1 and have been notified of this proposal and have agreed to consider it. Since this well location is not fixed, formal proposal letters have not gone out.
- h. This well will be drilled to the sands of the Middle Morrow formation at 8500 feet below ground level. The upper Pennsylvanian is a potential secondary target.
- i. The prospect is risky as the Morrow formation sands must be encountered and must have producible free gas saturation.

(6) Proper notice was provided to the affected parties as defined in NMAC 19.15.4.12A.(3) and no objections were received.

(7) No other parties entered an appearance in this case or otherwise opposed this application.

(8) Applicant's proposal to create a non-standard deep gas spacing unit should be approved in order to protect correlative rights and prevent waste.

**IT IS THEREFORE ORDERED THAT:**

(1) The application of Principal Properties to establish a 320-acre, more or less, non-standard gas spacing unit for production of gas in the Morrow formation, Little Box Canyon-Morrow Gas Pool (80240), comprised of the SW/4 of Section 1, and the NW/4 of Section 12, Township 21 South, Range 21 East, NMPM, Eddy County, New Mexico, is hereby approved.

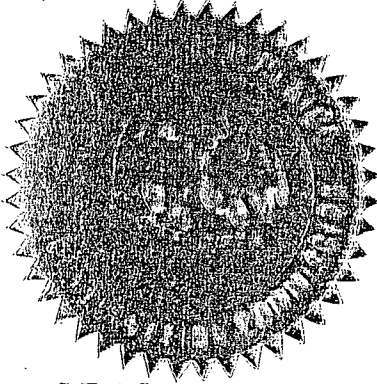
(2) This unit shall be dedicated to the proposed Horseshoe Canyon Federal Com Well No. 1 to be vertically drilled at an unorthodox location within the SW/4 SW/4 of Section 1.

(3) These lands shall be held pending drilling approval of the proposed well, unless portions of those lands are first dedicated to a different gas well completed in the Morrow formation.

(4) If a non-standard location is selected for the well, the operator shall obtain approval from the Division for a non-standard gas well location prior to producing this well.

(5) Jurisdiction of this case 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

A handwritten signature in dark ink, appearing to read "Jami Bailey". The signature is fluid and cursive, with a long, sweeping underline.

JAMI BAILEY  
Director