

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION

RECEIVED

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Oil Conservation Division

IN THE MATTER OF THE APPLICATION OF
EGL RESOURCES, INC. AND ROBERT LANDRETH
FOR POOL EXTENSION FOR THE NORTH BELL
LAKE-DEVONIAN GAS POOL, OR ALTERNATIVELY,
FOR POOL CREATION AND SPECIAL POOL RULES, AND
EXPANSION OF GAS SPACING AND PRORATION UNIT,
LEA COUNTY, NEW MEXICO

CASE NO. 13085

**MOTION OF
E.G.L. RESOURCES, INC. AND ROBERT LANDRETH
FOR TEMPORARY SUSPENSION OF DRILLING PERMITS**

E.G.L. Resources, Inc., ("EGL"), and Robert Landreth, ("Landreth"), move the Division enter its order temporarily suspending, or holding in abeyance the approval of drilling permits for the Devon Energy Production Company Rio Blanco 33 Federal Well No. 1 and the Rio Blanco 33 Federal Well No. 2, both in Section 33, T-22-S, R-34-E, pending the deliberations of the Oil Conservation Division and the Oil Conservation Commission in two proceedings that will determine the appropriate well spacing and acreage dedication for Devonian formation reservoir development in the area. As grounds for this motion, EGL and Landreth state:

BACKGROUND FACTS

EGL is the operator of the Rio Blanco "4" Federal Well No. 1 well located at a standard location (Unit F) 1980 feet from the north and west lines of Section 4, T-23-S, R-34-E in Lea County. EGL has commenced re-entry operations to deepen the Rio Blanco well from the Morrow formation to the Devonian formation. It is expected the deepened well will be completed by approximately August 15, 2003.

The Section 4 lands dedicated to the Rio Blanco "4" well were the subject of competing compulsory pooling applications brought by EGL and Devon. Devon's Application in Case No. 13048 sought the creation of a 320-acre N/2 unit. EGL's Application in Case No. 13049 sought the creation of a 640-acre unit. The Division consolidated the two applications for hearing on April 10, 2003 and subsequently issued Order No. R-11962 on May 13, 2002.

In Order No. R-11962, the Division interpreted its well spacing and acreage dedication requirements under Rule 104 and determined that 320-acre "wildcat" well spacing applied. Accordingly, the Order pooled the Devonian formation mineral interests underlying the N/2 of Section 4 to form a 320-acre spacing unit.

On May 15, 2003, following the issuance of Order No. R-11962, EGL and Landreth filed an Application for Hearing De Novo in order to have the Commission further consider the Division's interpretation of its acreage dedication rules consistent with established agency precedent.¹ Devon filed its own Application for Hearing De Novo on May 27th. The Commission hearing on the EGL and Devon de novo applications has not yet been set.

Under Order No. R-11962, the Division invited EGL and Landreth to file a separate application to expand the 320-acre unit in the context of an application to extend the limits of the North Bell Lake Devonian Gas Pool, the pool rules for which provide for 640-acre spacing units. (Order No. R-11962, finding 17). EGL and Landreth accordingly filed their Application in this matter with the Division on May 23, 2003. Subsequently, on June 25, 2003, EGL and Landreth filed an Amended Application seeking the

¹ In Order No. R-9493, the Division pooled the Devonian formation underlying these very same lands and formed a 640-acre spacing and proration unit.

additional, alternative relief of the creation of a new pool consisting of the entirety of Section 4, along with special pool rules providing for 640 acre spacing and commensurate well location requirements.

POINTS AND AUTHORITIES

The central focus of the proceedings pending before both the Commission and the Division is the propriety of 640-acre spacing for Devonian formation gas production. In the former case, the Commission will be asked to interpret statewide Rule 104A. In the Division case, the issue will be determined on the basis of technical evidence. In the Amended Application in this case, the Applicants state:

"7. The Division has consistently found that Devonian formation wells in the vicinity are capable of draining areas in excess of the standard 320 acre units assigned to deep formation gas wells under the Division's statewide rules. For all Devonian reservoirs of similar depth in southeast Lea County for which special pool rules have been established, 640-acre spacing is the standard.

8. The application of the special pool rules and regulations for the North Bell Lake-Devonian Gas Pool to Section 4, or alternatively, the promulgation of special pool rules for a newly created pool is necessary and appropriate for the orderly and efficient development of Devonian formation gas reserves. Devonian formation gas reserves are best developed and produced on 640-acre proration units so that the unnecessary dissipation of reservoir energy, the violation of correlative rights, a reduction of the ultimate recovery of reserves, and the drilling of unnecessary wells may be avoided."

On June 6, 2003, Devon filed APD's² for its proposed Rio Blanco 33 Federal Wells 1 and 2 with the Carlsbad office of the Bureau of Land Management. Devon proposes to drill the Rio Blanco 33 Federal Well No. 1 to the Devonian formation at an indicated well location 1,000 feet from the south line and 1,620 feet from the west line of Section 33, T-22-S, R-34-E³. Devon's well location is based on the Division's generic, statewide well location rules for 320-acre gas spacing and proration units. EGL's Rio

² Application for Permit to Drill

Blanco well in Section 4 immediately to the south is being drilled to a standard bottom hole location consistent with pool rules for 640-acre units. The Special Pool Rules and Regulations for the North Bell Lake Devonian Gas Pool previously applied to the subject lands in 1991 prohibit the well locations closer than 1650 feet to the section line.⁴

The parties do not dispute that the Devonian formation reservoir targeted by the Rio Blanco re-entry in Section 4 extends northward into the S/2 of Section 33 and westward into Section 5. As evidenced by the attached Devonian Structure Map (Exhibit 1), it is apparent that Devon is seeking to take advantage of the Division's rules for well locations for 320-acre units in order to situate the well closer to the boundary of Section 4 than would otherwise be permitted under the rules for 640-acre spacing units. Devon's APD's also create the possibility that the Rio Blanco "4" well could be offset by two additional Devonian wells located each in the N/2 and S/2 of the adjoining Section 5 at locations as close as 660 feet from the west boundary of Section 4. In addition, under 320-acre spacing, Robert Landreth will be forced to drill another well in the S/2 of Section 4 before October 25th of this year in order to avoid the termination of lease interests. As a cumulative result of all these circumstances, under 320-acre spacing, there is a substantial likelihood that the common reservoir will be produced from at least five wells, all in close proximity and in direct competition for reserves and reservoir energy.

EGL and Landreth have consistently asserted that this reservoir is best developed by wells drilled on 640-acre units. During the hearing on the consolidated compulsory pooling applications in Case Nos. 13048 and 13049, EGL and Landreth presented evidence establishing that Devonian formation wells in the vicinity of the Rio Blanco "4"

³ The Rio Blanco 33 Federal Well No. 2 is to be located 1,980 feet from the North and West Lines of Section 33.

Federal Well No. 1 are capable of draining areas far larger than 320 acres. Using material balance methodology, EGL and Landreth demonstrated that the Continental Bell Lake Unit No. 6 Well in Section 6, T-23-S, R-34-E drained 824 acres based on its actual cumulative gas recovery of 31,143 MMcf. It was also demonstrated that the BTA Oil Producers 7909 JV-P Well No. 1 located in Section 18, T-23-S, R-34-E was completed in 1980 in a common source of supply in the Devonian formation and had been substantially drained by Continental Bell Lake Unit Well No. 6 two sections away⁵.

Similarly, in findings 5 and 6 in Order No. R-6424 (NMOCD Case No. 6962; *Application of BTA Oil Producers for Special Pool Rules and Pool Extension, Lea County, New Mexico*) the Division found that the Bell Lake Unit Well No. 6 and the BTA 7909 JV-P Well No.1, one and one-half miles away, were producing from a single common source of supply in the Devonian formation and that one well in the North Bell Lake-Devonian Gas Pool is capable of draining 640 acres.

The Devonian formation reservoir underlying the subject lands is a very active water-drive reservoir. With the doubling of well locations permissible under a 320-acre spacing scheme, there is a greater possibility that intense competition for gas reserves will result in water coning and the premature abandonment of wells with a resulting waste of otherwise recoverable reserves. By this same token, 320 acre spacing will also lead to the drilling of unnecessary wells without any incremental recovery of reserves.

By seeking the BLM's ministerial approval of its two APD's Devon seeks to preempt this agency from considering the propriety of well spacing and density for this Devonian reservoir in the context of a properly submitted application. Rather than have

⁴ Rule 4, Special Rules and Regulations for the North Bell Lake-Devonian Gas Pool, Order No. R-6424.

this matter determined in such a manner by administrative fiat, the Division must act in a manner consistent with its statutory charge to promote the interests of conservation and the prevention of waste, including the drilling of unnecessary wells by holding in abeyance any Division approval of Devon's APD's until the Division has determined the underlying issue based on technical evidence.

Unlike Mr. Landreth, Devon is not faced with the pending expiration of any lease interests in Section 33 and will therefore incur no harm by a temporary suspension.

RELIEF REQUESTED

WHEREFORE, EGL and Landreth request the Division enter its order temporarily suspending, or holding in abeyance any approval of drilling permits for Devon's planned wells in Section 33 T-22-S, R-34-E.

Respectfully submitted,

MILLER STRATVERT P.A.

By: _____



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⁵ The Division ruled that it could not take cognizance of the drainage evidence in the context of a compulsory pooling application. (Order No. R-11962, finding 16.)

Certificate of Mailing

I hereby certify that a true and correct copy of the foregoing was faxed to counsel of record on the 26th day of June 2003, as follows:

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