

**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. 13654
ORDER NO. R-12560**

**APPLICATION OF WESTERN MINERALS & OIL LTD. FOR SIMULTANEOUS
DEDICATION AND AN UNORTHODOX WELL LOCATION, SAN JUAN
COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 30, 2006, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 31st day of May, 2006, 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, Western Minerals & Oil Ltd. ("Western" or "applicant"), seeks authorization to simultaneously dedicate an existing standard 160-acre spacing and proration unit in the South Blanco-Pictured Cliffs Gas Pool comprising the SW/4 of Section 24, Township 27 North, Range 8 West, NMPM, San Juan County, New Mexico, to its Marron Well No. 1 (API No. 30-045-06310) located at an unorthodox gas well location 380 feet from the South line and 345 feet from the West line (Unit M) of Section 24, and to its Marron Well No. 6 (API No. 30-045-21323) located at a standard gas well location 1520 feet from the South line and 1670 feet from the West line (Unit K) of Section 24.

(3) The applicant also seeks approval of the unorthodox gas well location for the aforesaid Marron Well No. 1 in the South Blanco-Pictured Cliffs Gas Pool.

(4) Both the Marron Wells No. 1 and 6 are located within the South Blanco-Pictured Cliffs Gas Pool. This pool is currently spaced on 160 acres pursuant to the requirements set forth in the "*Special Rules and Regulations for the South Blanco-Pictured Cliffs Gas Pool*" as established by Division Order No. R-8170, as amended. This pool is also subject to Division Rule 19.15.3.104.C.(3), which requires that wells spaced on 160 acres be located no closer than 660 feet to the outer boundary of the unit nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary. The South Blanco-Pictured Cliffs Gas Pool is also a prorated gas pool and is therefore subject to Division Rules No. 19.15.8.601 through 19.15.8.606.

(5) Unless allowed by special pool rules, current Division rules prohibit drilling and producing more than one well on a 160-acre gas spacing and proration unit.

(6) Western presented evidence that demonstrates that:

- (a) the Marron Well No. 1 was drilled and completed in the South Blanco-Pictured Cliffs Gas Pool in 1953 by Frank B. Marshall. Since that time, the well has cumulatively produced approximately 1.309 BCF of gas from that pool;
- (b) the Marron Well No. 6 was drilled and completed in the Blanco-Mesaverde Gas Pool in 1974 by Western. In August, 2005, the Marron Well No. 6 was recompleted in the South Blanco-Pictured Cliffs Gas Pool, and in January, 2006, the well was downhole commingled in the Blanco-Mesaverde and South Blanco-Pictured Cliffs Gas Pools. The downhole commingling was authorized by the Aztec District Office of the Division by Order No. 1817-AZ;
- (c) the Marron Well No. 6 has been producing from the Pictured Cliffs formation since August, 2005 at a rate of approximately 190 MCF gas per day;
- (d) the Marron Well No. 1 is currently shut-in and classified as a pressure observation well in the South Blanco-Pictured Cliffs Gas Pool; and
- (e) at the time the Marron Well No. 1 was shut-in, it was producing from the South Blanco-Pictured Cliffs Gas Pool at a rate of approximately 25-35 MCF of gas per day.

(7) Western presented further evidence that demonstrates that the estimated

remaining gas reserves within the Marron Well No. 1 are approximately 223 MMCF of gas. Western testified that a portion of these remaining reserves are accelerated reserves that would eventually be produced from the Marron Well No. 6, and a portion are reserves that will not be recovered by the Marron Well No. 6.

(8) Western testified that it has conducted a search of Division records, but has been unable to find a Division order that approved the unorthodox gas well location for the Marron Well No. 1.

(9) Western contends that if it is not allowed to simultaneously produce the Marron Wells No. 1 and 6, gas reserves may be lost. In support of its position, Western presented additional testimony that demonstrates that:

- (a) the Pictured Cliffs formation has low permeability evidenced by the fact that the Marron Well No. 1 has produced from this reservoir for some fifty-two years;
- (b) due to the age of the wellbore, the Marron Well No. 1 may only be available to produce its remaining gas reserves for a relatively short period of time; and
- (c) it would not be economic to drill an additional well within the SW/4 of Section 24 to recover the gas reserves that may not be recovered by the Marron Well No. 6.

(10) The applicant provided notice of this application to the offset operators that directly offset the subject spacing unit. These offset operators were identified as Burlington Resources Oil & Gas Company and ConocoPhillips. Neither of these parties appeared at the hearing.

(11) The applicant presented no engineering drainage area data for the Marron Wells No. 1 and 6.

(12) The applicant presented no engineering evidence to show what percentage of the estimated remaining gas reserves within the Marron Well No. 1 are accelerated gas reserves that will ultimately be produced by the Marron Well No. 6, and what percentage of these reserves are reserves that will not be recovered by the Marron Well No. 6.

(13) There is insufficient evidence to demonstrate that the Marron Well No. 6 will not ultimately drain the remaining gas reserves underlying the SW/4 of Section 24.

(14) The applicant presented no evidence to demonstrate that the Marron Well No. 1 is not mechanically sound, and that this wellbore will be unavailable to produce gas, if necessary, at a later time.

(15) The South Blanco-Pictured Cliffs Gas Pool is a large gas reservoir that encompasses all or parts of twenty-seven townships in San Juan and Rio Arriba Counties, New Mexico. Division records show that there are currently 1,479 active producing gas wells in the pool operated by thirty-four (34) different operators.

(16) The applicant testified that there may be areas within the South Blanco-Pictured Cliffs Gas Pool where infill drilling may be appropriate and necessary in order to effectively and efficiently drain 160 acres.

(17) The applicant also testified that it may file additional applications to produce more than one well on a standard unit within acreage it currently owns or operates in the pool.

(18) Historically, infill drilling in pools such as the South Blanco-Pictured Cliffs Gas Pool has been considered and approved by the Division on a pool-wide basis, rather than on a unit basis, thereby allowing all operators in the pool equal opportunity to develop their acreage.

(19) The applicant's evidence does not demonstrate that gas reserves will be lost if its application is not approved.

(20) The applicant failed to demonstrate that the correlative rights of other operators in the South Blanco-Pictured Cliffs Gas Pool will be protected if its application is approved.

(21) The application of Western to simultaneously produce its Marron Wells No. 1 and 6 within a standard unit comprising the SW/4 of Section 24, Township 27 North, Range 8 West, NMMP, San Juan County, New Mexico, should be denied.

(22) No offset operator appeared and objected to the unorthodox location for the Marron Well No. 1; therefore, in the event that the Marron Well No. 1 is produced at a later time, that portion of Western's application seeking approval of this unorthodox well location should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Western Minerals & Oil Ltd. to simultaneously dedicate an existing standard 160-acre spacing and proration unit in the South Blanco-Pictured Cliffs Gas Pool comprising the SW/4 of Section 24, Township 27 North, Range 8 West, NMPM, San Juan County, New Mexico, to its Marron Well No. 1 (API No. 30-045-06310) located at an unorthodox gas well location 380 feet from the South line and 345 feet from the West line (Unit M) of Section 24, and to its Marron Well No. 6 (API

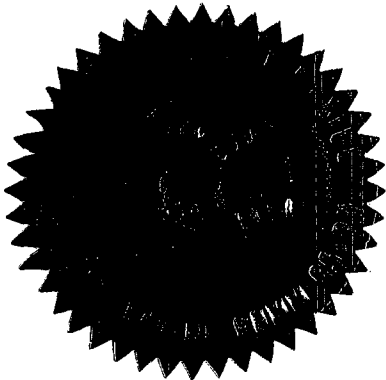
No. 30-045-21323) located at a standard gas well location 1520 feet from the South line and 1670 feet from the West line (Unit K) of Section 24, is hereby denied.

(2) The portion of Western Minerals & Oil Ltd.'s application for approval of an unorthodox gas well location for the aforesaid Marron Well No. 1 in the South Blanco-Pictured Cliffs Gas Pool is hereby approved.

(3) Pursuant to Division rules, Western Minerals & Oil Ltd. shall be allowed to produce only one well in the South Blanco-Pictured Cliffs Gas Pool within the SW/4 of Section 24, Township 27 North, Range 8 West, NMPM, at any given time.

(4) 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

MARK E. FESMIRE, P.E.
Director