

**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. 13367
ORDER NO. R-12402**

**APPLICATION OF BASS ENTERPRISES PRODUCTION COMPANY FOR AN
ORDER AUTHORIZING THE DRILLING OF A WELL IN THE POTASH AREA,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 2, 2004, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 8th day of August, 2005, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given as required by law and in accordance with New Mexico Oil Conservation Division/Commission Order No. R-111-P, the Division has jurisdiction of this cause and the subject matter thereof.

(2) At the hearing, this case was consolidated with Division Cases No. 13368 and 13372 for the purpose of testimony.

(3) The applicant in this case, Bass Enterprises Production Company (hereinafter referred to as "Applicant" or "Bass"), seeks approval to drill its proposed James Ranch Unit Well No. 93 (API No. 30-015-33619) at a standard location 660 feet from the North and East lines (Unit A) of Section 7, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico, to an approximate depth of 14,800 feet to test all formations from the surface to the base of the Morrow formation. The following described units are to be dedicated to Applicant's proposed James Ranch Unit Well No. 93:

BEFORE THE OIL CONSERVATION COMMISSION
Santa Fe, New Mexico
Case Nos. 13367 Exhibit No. 9
Submitted by:
Bass Enterprises Production Co.
Hearing Date: June 5, 2006

(a) the 322.53 acres comprising Lots 1 and 2, the NE/4, and the E/2 NW/4 (N/2 equivalent) of Section 7, being a standard lay-down deep gas spacing unit for any and all formations and/or pools developed on 320-acre spacing from the surface to the base of the Morrow formation [see Division Rule 104.C (2)], which presently include but are not necessarily limited to the Undesignated Los Medanos-Strawn Gas Pool (80600), Undesignated West Sand Dunes-Atoka Gas Pool (84640), Undesignated Los Medanos-Atoka Gas Pool (80520), and Los Medanos-Morrow Gas Pool (80560);

(b) the NE/4 to form a standard 160-acre gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent and pursuant to Division Rule 104.C (3); and

(c) the NE/4 NE/4 (Unit A) to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent and pursuant to Division Rule 104.B (1), which presently include but are not necessarily limited to the Undesignated Los Medanos-Delaware Pool (40297), Undesignated Southeast Quahada Ridge-Delaware Pool (50443), Undesignated Los Medanos-Bone Spring Pool (40295), and Undesignated Los Medanos-Wolfcamp Pool (96336).

(4) The New Mexico Oil and Gas Act, Section 70-2-12 (B) (17) NMSA 1978, empowers the Division *"to regulate and, where necessary, prohibit drilling or producing operations for oil or gas within any area containing commercial deposits of potash where the operations would have the effect unduly to reduce the total quantity of the commercial deposits of potash which may reasonably be recovered in commercial quantities or where the operations would interfere unduly with the orderly commercial development of the potash deposits."*

(5) Division Order No. R-111, dated November 9, 1951, as amended by Order Nos. R-111-A through R-111-O, established the "Potash Area," which *"represents the area in various parts of which potash mining operations are now in progress, or in which core tests indicate commercial potash reserves."* Furthermore, Division Order No. R-111-P established *"The Rules and Regulations Governing the Exploration and Development of Oil and Gas in Certain Areas Herein Defined, Which Are Known To Contain Potash Reserves (Potash Area)."*

(6) Division records and the evidence presented indicates that:

(a) The proposed James Ranch Unit Well No. 93 will be an infill Morrow gas well pursuant to Division Rule 104.C (2) (b) within the N/2 equivalent of Section 7, which 322.53-acre unit is currently dedicated to Applicant's James Ranch Unit Well No. 14 (API No. 30-015-24420), directionally drilled from a surface location 100 feet from the South line and 1980 feet from the West line (Unit N) of offsetting Section 6, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico, to a standard bottomhole gas well location pursuant to Division Rule 111.A (7) within the NE/4 NW/4 (Unit C) of Section 7;

(b) On April 14, 2004, Bass filed an Application for Permit to Drill ("APD") its above-described James Ranch Unit Well No. 93 with the Division district office in Artesia, New Mexico.

(c) Since all of Section 7 is within the designated oil/potash area, Bass on August 19, 2004 notified all potash lessees within one mile of the proposed well location. IMC Potash Carlsbad, Inc., now Mosaic Potash ("Mosaic"), a party of record in this matter, is the only potash lessee within one mile of the proposed well location.

(d) On September 15, 2004 the Division's Artesia district office approved Bass's APD.

(e) By letter dated September 17, 2004 to the Artesia district office of the Division, Mosaic filed an objection to Bass's proposed James Ranch Unit Well No. 93.

(f) On September 18, 2004, the Division's Artesia district office rescinded Bass's APD.

(7) The NE/4 NE/4 (Unit A) of Section 7 is fee surface/fee minerals (oil, gas, and potash). Applicant is the current lessee of a valid oil and gas lease from all mineral interest owners covering the mineral rights under the NE/4 NE/4 (Unit A) of Section 7.

(8) Order R-111-P provides that for wells on State Lands or on Federal Lands, the Division shall inquire of the New Mexico State Land Office ("SLO") or the United States Bureau of Land Management ("BLM"), as the case may be, as to whether the lands involved are within an area designated a Life of Mine Reserve ("LMR").

(9) With regard to potash leasing and potash development in the immediate area (limited to Sections 5, 6, 7, and 8, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico), the evidence presented demonstrates that:

(a) Mosaic holds federal potash leases within all of this four-section area, with the exception of the NE/4 NE/4 (Unit A) of Section 7 (fee minerals);

(b) currently, there is no potash lease with the fee mineral owners underlying the 40-acre tract comprising the NE/4 NE/4 (Unit A) of Section 7;

(c) all of Section 7 is within the "Measured Potash Reserves" area (Potash Enclave) as depicted on the latest map published by the United States Bureau of Land Management of the distribution of potash resources within the Carlsbad Mining District, Eddy and Lea Counties, New Mexico;

(d) all of Section 7 is designated as an LMR; and

(e) the closest potash mining operations is approximately two miles to the west-southwest of Bass's proposed well location.

(10) With regard to oil and gas development in the immediate area, Bass presented evidence that demonstrates:

(a) there are at least nineteen well bores within this four section area, some of which are located within the Measured Potash Reserves area;

(b) Section 7 is currently being developed with two Bass operated wells [one is referenced in Finding Paragraph No. (6) (a) above]; both wells were directionally drilled and are located in offsetting sections; and

(c) Bass's proposed James Ranch Unit Well No. 93 will not only be an infill Morrow gas well within the aforementioned existing 322.53-acre deep gas spacing unit comprising the N/2 equivalent of Section 7, but also has the potential of finding oil and gas reserves capable of producing in commercial quantities within several other geologic horizons.

(11) According to Order R-111-P, an LMR determination by either the SLO or the BLM is within the exclusive authority of those agencies and such a determination by them is binding upon the Division.

(12) However, Order R-111-P makes no provision for an LMR determination when the proposed well is located on fee lands, nor does Order R-111-P authorize a potash lessee to designate an LMR over lands not leased to that potash lessee.

(13) Sub-part G (e) 3 of these rules, provides that; *"application to drill in the LMR area, including buffer zones, may be approved only by mutual agreement of lessor and lessees of both potash and oil and gas interests."*

(14) The evidence presented indicates that the surface owner and all mineral interest owners have consented to Bass's drilling of its James Ranch Unit Well No. 93 and desires to have their oil and gas minerals developed first and in preference to any potash reserves underlying the NE/4 NE/4 (Unit A) of Section 7.

(15) This application should be approved and Bass's APD to drill its above-described James Ranch Unit Well No. 93, previously rescinded by the Division's Artesia district office on September 18, 2004, should be reinstated.

(16) Bass must comply with all applicable drilling, casing, cementing, and plugging requirements of a deep gas well set forth in Division Order No. R-111-P.

(17) Further, as provided in sub-part H of Order R-111-P, a representative of Mosaic or a representative of any owner of a potash mineral interest within one mile of the proposed James Ranch Unit Well No. 93 may be present during drilling, cementing, casing, and plugging of said well to observe conformance with all requirements of Order R-111-P and of this order.

IT IS THEREFORE ORDERED THAT:

(1) Bass Enterprises Production Company ("Bass") is hereby granted authority to drill its James Ranch Unit Well No. 93 (API No. 30-015-33619) as originally proposed by its Application for Permit to Drill ("APD") filed with the Division's district office in Artesia in April, 2004 at a standard location 660 feet from the North and East lines (Unit A) of Section 7, Township 23 South, Range 31 East, NMPM, Eddy County, New Mexico, to an approximate depth of 14,800 feet to test all formations from the surface to the base of the Morrow formation.

(2) The following described units are to be dedicated to Bass's proposed James Ranch Unit Well No. 93:

(a) the 322.53 acres comprising Lots 1 and 2, the NE/4, and the E/2 NW/4 (N/2 equivalent) of Section 7, being a standard lay-down deep gas spacing unit for any and all formations and/or pools developed on 320-acre spacing from the surface to the base of the Morrow formation [see Division Rule 104.C (2)], which presently include but are not necessarily limited to the Undesignated Los Medanos-Strawn Gas Pool (80600), Undesignated West Sand Dunes-Atoka Gas Pool (84640), Undesignated Los Medanos-Atoka Gas Pool (80520), and Los Medanos-Morrow Gas Pool (80560);

(b) the NE/4 to form a standard 160-acre gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent and pursuant to Division Rule 104.C (3); and

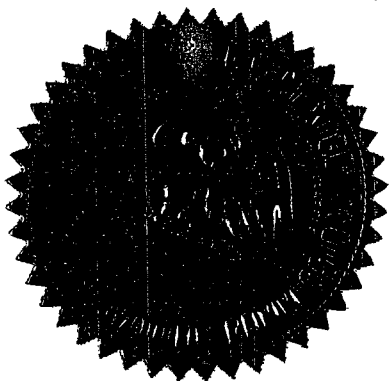
(c) the NE/4 NE/4 (Unit A) to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent and pursuant to Division Rule 104.B (1), which presently include but are not

necessarily limited to the Undesignated Los Medanos-Delaware Pool (40297), Undesignated Southeast Quahada Ridge-Delaware Pool (50443), Undesignated Los Medanos-Bone Spring Pool (40295), and Undesignated Los Medanos-Wolfcamp Pool (96336).

(3) Bass shall comply with all applicable drilling, casing, cementing, and plugging requirements of a deep gas well set forth in Division Order No. R-111-P.

(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

A handwritten signature in cursive script, likely belonging to Mark E. Fesmire, the Director of the Oil Conservation Division.

MARK E. FESMIRE, P. E.
Director