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July 10, 2003

VIA HAND DELIVERY

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JUL 10 2003

David R. Catanach, Hearing Examiner
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87504

Oil Conservation Division

Re: Case No. 13064
Application of Paladin Energy Corporation To Abolish the Special Pool
Rules and Regulations for the Bagley Siluro-Devonian Pool, Lea
County, New Mexico

Dear Mr. Catanach:

Pursuant to your instructions, attached is a proposed order for your consideration. As noted in Mr. Kellahin's July 9th letter, Apache Corporation does not oppose Paladin's application.

Sincerely,



Michael H. Feldewert

MHF/jlp

cc: W. Thomas Kellahin, attorney for Apache
George Fenton, Paladin Energy Corporation

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

RECEIVED

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

JUL 10 2003

Oil Conservation Division

**CASE NO. 13064
ORDER NO. R-69-E**

**APPLICATION OF PALADIN ENERGY CORPORATION
TO ABOLISH THE SPECIAL POOL RULES AND
REGULATIONS FOR THE BAGLEY SILURO-DEVONIAN
POOL, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on May 22, 2003 at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of _____, 2003, 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, Paladin Energy Corporation ("Paladin"), seeks to abolish the Special Rules and Regulations for the Bagley Siluro-Devonian Pool, which pool presently underlies the following acreage in Lea County, New Mexico:

Township 11 South, Range 33 East, N.M.P.M.

Section 33:	SE/4
Section 34:	S/2, NE/4
Section 35:	S/2, NW/4, S/2 NE/4
Section 36:	SW/4

Township 11 South, Range 33 East, N.M.P.M.

Section 1:	W/2
Section 2 and 3:	All
Section 4:	E/2
Section 10:	E/2
Section 11:	All
Section 12:	W/2

3. Division records show that the Special Rules and Regulations for the Bagley Siluro-Devonian Pool were adopted on June 30, 1954, under Commission Order No. R-69-D (Case No. 249) and require, in relevant parts:

- (a) 80-acre spacing and proration units comprised of either the E/2 or the W/2 of a quarter section;
- (b) Well locations within 150 feet of the center of the northwest and the southeast quarter sections;
- (c) An allowable equal to the top allowable for wells in the Bagley Siluro-Devonian depth range, calculated by the use of the 80-acre proportional factor set forth in Division Rule 505; and
- (d) Any well drilled off-pattern under the authority of any special order is entitled only to an allowable equal to that of a standard 40-acre proration unit with deep pool adaptation as provided by Commission rules.

See Exhibit 2.

4. Division records further show that Commission Order No. R-69-D excluded the following acreage from the Special Rules and Regulations:

Township 11 South, Range 33 East, N.M.P.M.

Section 35:	NW/4
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Township 11 South, Range 33 East, N.M.P.M.

Section 2:	E/2
Section 3:	NW/4
Section 11:	N/2 NE/4

See Exhibit 2.

5. Paladin presented evidence on the history and status of the Bagley Siluro-Devonian Pool that demonstrates:

- (a) The Bagley Siluro-Devonian Pool was developed primarily in the 1950s' and the pool is in an advanced state of depletion. See Exhibit 3; Plaisance Testimony; Adams Testimony.

(b) There are only eight active wells on the crest of the structure of the Bagley Siluro-Devonian Pool confined to the S/2 of Section 35, Township 11 South, Range 33 East and the N/2 of Section 2, Township 11 South, Range 33 East. *See Exhibit 3; Plaisance Testimony; Adams Testimony.*

(c) None of the eight active wells in the Bagley Siluro-Devonian Pool are capable of producing the allowable provided for in the Special Pool Rules. *See Exhibit 3; Plaisance Testimony.*

(d) The Bagley Siluro-Devonian Pool presently has six 80-acre spacing units and one 40-acre spacing unit dedicated to active wells. *See Exhibit 3; Plaisance Testimony.*

(e) Since infill wells have been drilled in most of the productive areas of the Bagley Siluro-Devonian Pool, the pool has effectively been developed on 40-acre spacing. *See Exhibit 3; Plaisance Testimony.*

(f) Due to Division approved exceptions and the infill drilling, the northwest/southeast well pattern set forth in the Special Rules and Regulations has been rendered obsolete. *See Exhibit 3; Plaisance Testimony.*

6. Paladin also presented geologic and engineering evidence that demonstrates:

(a) The Bagley Siluro-Devonian Pool is a thick, fractured dolomite with a strong bottom water drive. *See Adams Testimony.*

(b) Wells in the Bagley Siluro-Devonian Pool produce large amounts of fluid. *See Adams Testimony.*

(c) Water has reached the top of the structure of the Bagley Siluro-Devonian Pool. *See Adams Testimony.*

(d) Due to water coning from the strong bottom water drive and the pool's advanced state of depletion, existing wells in the Bagley Siluro-Devonian Pool do not drain 80-acres. *See Adams Testimony.*

(e) The water coning created by the strong bottom water drive has created thin-bypassed oil columns that will not be drained by the existing active wells in the Bagley Siluro-Devonian Pool. *See Adams Testimony.*

(f) Future wells or re-completions in the Bagley Siluro-Devonian Pool will likely target thin, by-passed oil columns with a drainage area less than 40-acres. *See Adams Testimony.*

(g) Recent completion efforts in areas of the Bagley Siluro-Devonian Pool surrounded by direct 40-acre offsetting wells with a 30 to 50 year history of significant production have experienced additional recovery patterns indicative of by-passed reserves. *See Exhibits 3 and 7; Adams Testimony.*

7. The geologic and engineering evidence presented by Paladin demonstrates that the existing wells in the Bagley Siluro-Devonian Pool do not effectively drain 80-acres, and any futures wells or re-completions in the Bagley Siluro-Devonian Pool will not effectively drain 80-acres. *See Adams Testimony.*

8. Paladin also presented evidence on the ownership within the active spacing units in the Bagley Siluro-Devonian Pool that demonstrates:

(a) The acreage dedicated to the eight active wells in the Bagley Siluro-Devonian Pool is leased from the State of New Mexico. *See Exhibit 3; Plaisance Testimony.*

(b) None of the six active 80-acre spacing units are comprised of more than one state lease. *See Exhibit 3; Plaisance Testimony.*

(c) The working interest ownership is common throughout each of the six active 80-acre spacing units. *See Plaisance Testimony.*

9. The ownership evidence presented by Paladin establishes that abolishing the Special Rules and Regulations for the Bagley Siluro-Devonian Pool will not deprive any interest owner of the benefits of a producing well or result in any interest owner receiving less than what that interest owner is receiving under the existing Special Pool Rules. *See Plaisance Testimony.*

10. Paladin also presented testimony that by abolishing the Special Rules and Regulations for the Bagley Siluro-Devonian Pool, the Division will encourage the development and production of by-passed oil reserves that may otherwise not be recovered. *See Plaisance Testimony; Adams Testimony.*

11. The two existing operators in the Bagley Siluro-Devonian Pool agree that the Special Rules and Regulations are obsolete and should be abolished in favor of standard statewide rules. *See Exhibit 4; Plaisance Testimony.*

12. Apache Corporation appeared at the hearing through legal counsel as an owner of working interests within the Bagley Siluro-Devonian Pool.

13. Apache Corporation owns acreage that is exempted from the Special Rules and Regulations and therefore subject to the general statewide rules requiring 40-acre spacing. *See Exhibit 3.*

14. Apache Corporation does not oppose Paladin's application.

15. No other interest owner appeared at the hearing.

16. This case presents a unique situation with respect to ownership and a unique situation with respect to development that favors abolishing the Special Rules and Regulations for the Bagley Siluro-Devonian Pool.

17. Approval of Paladin's application will not have a negative impact on the correlative rights of any interest owner in the Bagley Siluro-Devonian Pool.

18. Approval of Paladin's application will serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Paladin's application to abolish the Special Rules and Regulations for the Bagley Siluro-Devonian Pool is hereby approved.

(2) The Special Rules and Regulations for the Bagley Siluro-Devonian Pool created under Order No. R-69-D (Case No. 249) and entered by the Division on June 30, 1954, are hereby abolished.

(3) Within 90 days of the entry of this Order, the operators in the Bagley Siluro-Devonian Pool shall file with the Division revised Well Location and Acreage Dedication Plats (Form C-102) pursuant to Rule 1102 dedicating 40-acres to each of the existing producing wells in the Bagley Siluro-Devonian Pool.

(4) All future development and production from the Bagley Siluro-Devonian Pool shall be governed by the Division's general statewide rules.

(5) Jurisdiction 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

LORI WROTENBERY
Director

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