

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. 12932
ORDER NO. R-11928

APPLICATION OF OCEAN ENERGY, INC. FOR 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 September 19, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 26th day of March, 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, Ocean Energy, Inc. ("Ocean"), seeks to establish a non-standard 160-acre gas spacing unit within the Saladar-Strawn Gas Pool (84412) to comprise the SE/4 of Section 28, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, to be dedicated to the applicant's existing Burton Flat Deep Unit Well No. 13 (API No. 30-015-21125) located at a standard gas well location 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 28.

(3) The S.2 of Section 28 is included in the Saladar-Strawn Gas. This pool is "unprorated" and is therefore not subject to Part H of the Division's statewide rules entitled "Gas Proration and Allocation" (Rules 601 through 605); however, the pool is currently governed by Division Rule 104.C (2), which requires 320-acre spacing units comprising any two contiguous quarter sections of a single governmental section, requires wells to be located not closer to a quarter section line than 660 feet nor closer to any internal quarter-quarter section line than 10 feet, and allows for an optional infill well within an existing unit provided the infill well is located in the quarter section not containing the unit's initial producing gas well.

BEFORE THE OIL CONSERVATION COMMISSION

Santa Fe, New Mexico

Case No. 13927....Exhibit No. 3

Submitted by:

YATES PETROLEUM CORPORATION

Hearing Date: June 7, 2007

(4) The applicant originally filed an administrative application on July 1, 2002 (*administrative application reference No. pKRV0-218447015*) seeking approval of the Unorthodox spacing unit for the Burton Flat Deep Unit Well No. 13; however, this application was denied by letter dated August 6, 2002.

(5) By Division Order No. R-4371, issued in Case No. 4791 on August 21, 1972 upon the application of Monsanto Company, the Burton Flat Deep Unit Agreement, covering all depths below the top of the Delaware Sandstone, was approved for an area comprising 5,807.72 acres, more or less, of the following-described State (1,234.62 acres or 21.26%), Federal (4,253.10 acres or 73.23%), and fee (320.00 acres or 5.51%) lands in Eddy County, New Mexico:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM

Sections 26 and 27: All
Section 28: S/2
Section 33 through 35: All

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM

Irregular Section 1: Lots 3, 4, 5, 6, 11, 12, 13, and 14 and SW/4
Irregular Sections 2 and 3: All.

(6) Effective November 1, 1977 the following 1616.60 acres of State (200 acres), Federal (1256.60 acres), and fee (160 acres) lands in Eddy County, New Mexico were eliminated from the Unit:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM

Section 26: E/2
Section 28: SW/4

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM

Irregular Section 1: Lots 3, 4, 5, 6, 11, 12, 13, and 14 and SW/4
Irregular Section 2: SE/4 SW/4.

(7) Ocean is now the operator of the Burton Flat Deep Unit Area that currently comprises the following-described 4,191.12 acres, more or less, of State (1,034.62 acres), Federal (2,996.50 acres), and fee (160 acres) lands in Eddy County, New Mexico:

TOWNSHIP 20 SOUTH, RANGE 28 EAST, NMPM

Section 26: W/2
Section 27: All

Section 28: SE/4
Section 33: E/2
Section 34: All
Section 35: W/2

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM

Irregular Section 2: Lots 1 through 16, N/2 SW/4, SW/4 SW/4, and SE/4
Irregular Section 3: All.

(8) The Burton Flat Deep Unit Well No. 13 was originally drilled in the last quarter of 1974 to a total depth of 11,560 feet and completed in the Burton Flat-Morrow Gas Pool (73280). Production records indicate that 777 MCF of gas was produced in September, 1975. In January and February, 1990 another 3,301 MCF of gas from the Burton Flat-Morrow Gas Pool was reported. Under the terms of the Unit Agreement the SW/4 of Section 28 was contracted out of the Unit [see Ordering Paragraph No. (6) above] and the lease covering the SW/4 of Section 28 subsequently expired.

(9) In May, 2001 Ocean recompleted the well up-hole into the Strawn formation and commenced producing gas from the Saladar-Strawn Gas Pool. Further, the Division approved an OCD Form C-104, "*Request for Allowable and Authorization to Transport*," for the well on August 26, 2001.

(10) After the Burton Flat Deep Unit Well No. 13 was recompleted in the Strawn formation, Ocean applied to the U. S. Bureau of Land Management ("USBLM") and the New Mexico Commissioner of Public Lands ("Land Commissioner") to create a Strawn participating area in the Burton Flat Deep Unit Area for the well. The USBLM and the Land Commissioner determined that the well was non-commercial, and refused to create a Strawn participating area.

(11) Under the Burton Flat Deep Unit Operating Agreement, all working interest owners in the Unit Area shared in the cost of drilling the Burton Flat Deep Unit Well No. 13, and they all share in production from the well. The applicant presented testimony to the effect that if a non-standard unit comprising the SE/4 of Section 28 is not approved, the equities of the parties who paid for the well initially would be adversely affected.

(12) The SE/4 of Section 28 is comprised of State of New Mexico Oil and Gas Lease L-06322, in which the beneficiary is the "common schools." If a non-standard 160-acre spacing unit comprising the SE/4 of Section 28 is dedicated to this well under the Burton Flat Deep Unit Agreement, 100% of the royalties from this well would be attributed to this state lease.

(13) Currently, the SW/4 of Section 28 is comprised of State of New Mexico Oil and Gas Lease L-0240, in which the beneficiary is also the "common schools." Yates Petroleum Corporation, who is the current working interest owner in the SW/4 of Section 28, waived objection to the proposed non-standard 160-acre Strawn gas spacing unit.

(14) A representative of the Land Commissioner likewise waived objection to the creation of the proposed non-standard 160-acre unit.

(15) No other offset operator or interested party appeared at the hearing in opposition to the application.

(16) Approval of the proposed non-standard 160-acre gas spacing unit in the Saladar-Strawn Gas Pool for Ocean's above-described Burton Flat Deep Unit Well No. 13 will afford the applicant the opportunity to produce its just and equitable share of gas from the subject pool, will prevent economic loss caused by the drilling of unnecessary wells, and will prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Ocean Energy, Inc. ("Ocean") to establish a non-standard 160-acre spacing unit within the Saladar-Strawn Gas Pool (84412) comprising the SE/4 of Section 28, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, is hereby approved.

(2) This unit shall be dedicated to Ocean's existing Burton Flat Deep Unit Well No. 13 (API No. 30-015-21125) located at a standard gas well location 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 28.

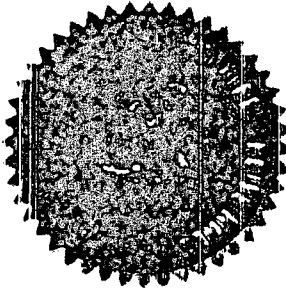
(3) The effective date of this order shall be made retroactive to the date of first production of Strawn gas from the Burton Flat Deep Unit Well No. 13.

(4) Ocean shall file a Form C-102 with the Division reflecting the non-standard 160-acre spacing unit within 30 days from the date of this order. Failure to file shall subject the well to cancellation of allowable.

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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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 cursive script, appearing to read "Lori Wrotenbery".

LORI WROTENBERY
Director