

**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. 13951
ORDER NO. R-12805**

**APPLICATION OF U.S. ENERCORP, LTD FOR A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND AN UNORTHODOX OIL WELL
LOCATION, RIO ARriba COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 12, 2007, at Santa Fe New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 30th day of August, 2007, 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) By Order No. R-6469-B issued in Case No. 8715 on March 7, 1986, the Division promulgated Special Rules and Regulations for the West Puerto Chiquito-Mancos Oil Pool in Rio Arriba County, including the requirement that each well completed or re-completed in the West Puerto Chiquito-Mancos Oil Pool shall be located on a standard spacing or proration unit consisting of approximately 640 acres which shall comprise a single governmental section, being a legal subdivision of the U.S. Public Land Surveys. Further, each well completed or re-completed in the West Puerto Chiquito-Mancos Oil Pool shall be located no nearer than 1650 feet to the outer boundary of the proration unit nor closer than 330 feet to a quarter section line.

(3) U.S. Enercorp, Ltd.. ("U.S. Enercorp" or "applicant") now seeks approval of a non-standard oil spacing and proration unit or **project area** comprised of Lots 3, 4, S/2 NW/4, and SW/4 (the W/2 equivalent) of Section 2, and Lots 1, 2, S/2 NE/4, and SE/4 (the E/2 equivalent) of Section 3, in Township 23 North, Range 1 West, N.M.P.M., to form a non-standard 644.28-acre oil spacing and proration unit or **project area** for any

and all formations or pools developed on 640-acre spacing within that vertical extent, including the West Puerto Chiquito-Mancos Oil Pool, Rio Arriba County, New Mexico.

(4) This unit is to be dedicated to the applicant's proposed Laguna Colorado 2/3 Well No. 1 to be horizontally drilled from a surface location 3250 feet from the South line and 1220 feet from the East line (Unit H) of Section 3 to a terminus 2180 feet from the South line and 1870 feet from the West line (Unit K) of Section 2. Pursuant to Division Order No. R-6469-B, the bottomhole location (BHL) of this well is unorthodox, and according to the applicant, the penetration point of the well in the Mancos Pool is not yet known.

(5) The applicant also requests approval of the unorthodox location for the well.

(6) U.S. Enercorp, Ltd presented the following land and geological testimony in support of its application.

- (a) The W/2 of Section 2 is a fee lease owned by U.S. Enercorp, Ltd. All of Section 3 is covered by a single Federal lease owned by McElvain Oil & Gas Ltd. U.S. Enercorp has a farm-out agreement on the E/2 of Section 3 from McElvain Oil & Gas Ltd.
- (b) The two vertical wells, namely Amoco Production Company's Badland Flats Federal Well No. 1 located in Section 3, and the Nassau Resources Laguna Colorado Well No. 2 located in Section 2, which were drilled in 1980 proved to be uneconomic.
- (c) In this area, there has been very little development for more than twenty (20) years in the Mancos formation.
- (d) Geological studies conducted by the applicant indicate that the E/2 of Section 2 and the W/2 of Section 3 are not productive. However, the majority of production appears to be concentrated on the centerline between Sections 2 and 3.
- (e) U.S. Enercorp, Ltd. now intends to employ horizontal well technology in these two half sections in an effort to maximize production from this pool.
- (f) Representatives of U.S. Enercorp, Ltd met with the Bureau of Land Management (BLM) and Steve Hayden of New Mexico Oil Conservation Division (NMOCD) regarding this application. The BLM wrote a letter to NMOCD in support of this application.
- (g) Notice of this application was given to all the offset operators surrounding the proposed unit or project area.

(7) No offset operator appeared at the hearing to oppose this application.

(8) The applicant's proposed non-standard oil spacing and proration unit or **project area** for production of oil in the West Puerto Chiquito-Mancos Pool will afford the applicant the opportunity to produce its just and equitable share of oil from the subject pool, and will prevent waste and protect correlative rights.

(9) This application should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of U.S. Enercorp, Ltd to establish a non-standard oil spacing and proration unit in the West Puerto Chiquito-Mancos Oil Pool consisting of the W/2 of Section 2 and the E/2 of Section 3, Township 23 North, Range 1 West, NMPM, Rio Arriba County, New Mexico, is hereby approved.

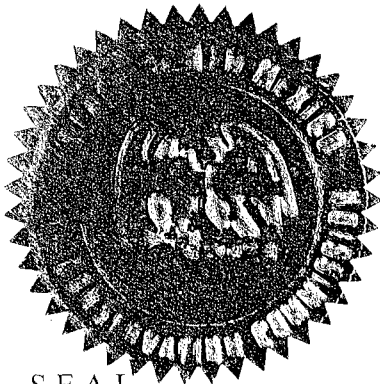
(2) This unit shall be dedicated to the applicant's proposed Laguna Colorado 2/3 Well No. 1 to be horizontally drilled from a surface location 3250 feet from the South line and 1220 feet from the East line (Unit H) of Section 3 to a terminus 2180 feet from the South line and 1870 feet from the West line (Unit K) of Section 2.

(3) The bottomhole location (BHL) and the Penetration point of the well (if unorthodox) are also approved.

(4) U.S. Enercorp, Ltd shall file a Form C-102 with the Division reflecting the non-standard oil spacing and proration unit or **project area** within 30 days from the date of this order. Failure to file Form C-102 as stipulated above shall subject the well to cancellation of allowable.

(5) Jurisdiction of this case 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director