

**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. 13993
ORDER NO. R-12813**

**APPLICATION OF READ & STEVENS, INC. TO LIMIT THE WELL SPACING
RULES OF THE LEA-PENNSYLVANIAN GAS POOL TO ITS CURRENT
HORIZONTAL EXTENT, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on September 20, 2007 at 8:15 a.m. at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 27th day of September, 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 of its subject matter.

(2) The Lea-Pennsylvanian Gas Pool (80040) was discovered by the Federal Well No. 1 completed April 4, 1961, located in the NW/4 of Section 11, Township 20 South, Range 34 East, and created effective November 1, 1961, by Commission Order No R-2101. Pursuant to Division rules in effect at that time, the pool was spaced on 160 acres, and wells were required to be located no closer than 660 feet to a quarter section line and no closer than 330 feet to a quarter-quarter section line or subdivision inner boundary.

(3) Division Order No R-2707 approved May 25, 1964, modified Division Rule 104 such that "deep" gas spacing in Southeast New Mexico was changed from 160 acres to 320 acres. However, 320-acre gas spacing only applied to those Pennsylvanian gas pools that were created and defined by the Division on and after June 1, 1964. All Pennsylvanian gas pools created before June 1, 1964 retained the original 160-acre well spacing, although wells in those pools may now be located no closer than 10 feet to a quarter-quarter section line or subdivision inner boundary.

(4) In 1985, the Division heard Case No. 8447, an application to limit the pool rules governing the Lea-Pennsylvanian Gas Pool to the existing pool boundaries only. The application was opposed and subsequently denied by the Division in Order No R-7830.

(5) The Commission subsequently heard this case De Novo and issued Order No. R-7830-A on July 3, 1985: (i) extending Pool boundaries in order to protect outlying 160-acre tracts; and (ii) limiting pool rules for the Lea-Pennsylvanian Gas Pool "to such lands as shall from time to time lie within the horizontal boundaries of said pool." The Commission also provided, in Finding Paragraph (16) of said order: "*Pennsylvanian formation wells completed within one mile of the boundary of such pool should be evaluated by the Hobbs district office of the Division to determine if they should be included within the boundaries of the Lea-Pennsylvanian Gas Pool which may be extended to include such wells.*"

(6) The applicant, Read & Stevens, Inc. seeks an order (i) limiting the current well spacing rules of the Lea-Pennsylvanian Gas Pool to acreage currently within the pool's boundaries, and (ii) eliminating the requirement of Finding Paragraph (16) of Order No. R-7830-A.

(7) The horizontal limits of the Lea-Pennsylvanian Gas Pool have been extended by various Division orders since November 1, 1961, and the pool currently encompasses the lands in Lea County, New Mexico described below:

Township 20 South, Range 34 East, N.M.P.M.

Section 2:	E/2
Section 3:	S/2
Section 4:	E/2
Section 9:	E/2
Sections 10-14:	All
Section 24:	All
Section 25:	N/2

(8) The main producing horizon in the Lea-Pennsylvanian Gas Pool is the Morrow formation. There are two Morrow gas pools immediately adjoining the Lea-Pennsylvanian Gas Pool: The Quail Ridge-Morrow Gas Pool and the Laguna Valley-Morrow Gas Pool. The Quail Ridge-Morrow Gas Pool was created effective on June 1, 1962 by Division Order No R-2241. Pursuant to Division rules in effect at that time, the pool was also spaced on 160 acres. However, by Division Order No. R-3890, spacing in the pool was increased to 320 acres. The Laguna Valley-Morrow Gas Pool was created by Division Order No. R-8193, effective date April 1, 1986, and has always been spaced on 320 acres.

(9) Applicant presented geologic and engineering evidence which demonstrates that:

(a) the Morrow reservoir in the subject area is continuous across the lands covered by the Lea-Pennsylvanian Gas Pool, Quail Ridge-Morrow Gas Pool, and Laguna Valley-Morrow Gas Pool;

(b) the Morrow reservoir is comprised of lenticular, discontinuous Morrow sands, and there are no distinguishing characteristics between the three pools; and

(c) wells in the three pools have similar producing characteristics.

(10) Fasken Oil and Ranch, Ltd. is currently drilling a Pennsylvanian test well, the Quail State Well No. 1, in the NE/4 of Section 16, Township 20 South, Range 34 East, N.M.P.M. This well is located within one mile of the Lea-Pennsylvanian Gas Pool, and is therefore subject to the requirements of Order No. R-7830-A. Fasken Oil and Ranch, Ltd. proposes forming a well unit for the well comprised of the E/2 of Section 16, and applicant, which owns a lease in the SE/4 of Section 16, desires to join in this well as a working interest owner in the proposed 320-acre unit. However, due to the current pool rules [Commission Order No. R-7830-A], Fasken Oil and Ranch, Ltd. cannot know the spacing of the well or its working interest partners until after a well is drilled and completed. This is unfair to the operators of proposed wells, and gives an unfair advantage to potential working interest owners outside the quarter section on which a well is located.

(11) Applicant's geologic and engineering evidence demonstrates that there is no distinction between the intervals producing in the Lea-Pennsylvanian Gas Pool and in the various other Pennsylvanian pools in this area.

(12) Pursuant to Division Rule 1210.A(4) (NMAC 19.15.14.1210.A(4)), applicant provided notice of this hearing to all Division-designated operators in the Lea-Pennsylvanian Gas Pool, and to all Division-designated operators of Pennsylvanian producing wells within one mile of the Lea-Pennsylvanian Gas Pool's outer boundary not assigned to another Pennsylvanian pool.

(13) No party appeared at the hearing in opposition to the application.

(14) Approval of this application limiting any further expansion of the Lea-Pennsylvanian Gas Pool and restricting its pool rules to the current pool boundaries will prevent further development of "deep" gas within one mile of this pool on 160-acre spacing units; which have been deemed undesirable by the Division since 1964.

(15) Approval will afford applicant the opportunity to develop gas reserves underlying the E/2 of Section 16, Township 20 South, Range 34 East, N.M.P.M., and operators of other proposed wells outside of the current boundaries of the Lea-Pennsylvanian Gas Pool, on well spacing that the Division has deemed appropriate for the Pennsylvanian formation, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Read & Stevens, Inc., the well spacing and well setback requirements for the Lea-Pennsylvanian Gas Pool are hereby limited to the acreage currently contained within the pool, as specified in Ordering Paragraph (2) below.

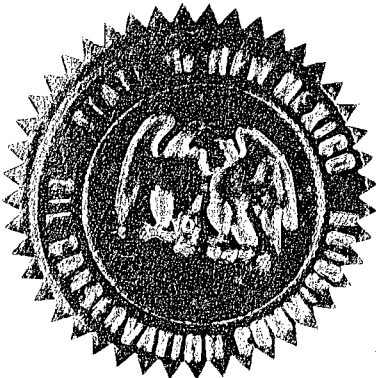
(2) The boundaries of the Lea-Pennsylvanian Gas Pool, described immediately below, shall not be extended further by the Division:

Township 20 South, Range 34 East, N.M.P.M.

Section 2:	E/2
Section 3:	S/2
Section 4:	E/2
Section 9:	E/2
Sections 10-14:	All
Section 24:	All
Section 25:	N/2

(3) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P. E.
Director