

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. 13202
ORDER NO. R-12121

APPLICATION OF KERR-MCGEE OIL & GAS ONSHORE L.L.C. FOR AN
EXCEPTION TO THE SPECIAL RULES AND REGULATIONS FOR THE
INDIAN BASIN-UPPER PENNSYLVANIAN ASSOCIATED POOL AND FOR
SIMULTANEOUS DEDICATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 8, 2004, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 10th day of March, 2004, 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, Kerr-McGee Oil & Gas Onshore L.L.C. ("Kerr-McGee"), seeks an exception to the *"Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool"* to allow both its existing Lowe State Well No. 5 (API No. 30-015-30583) located 1650 feet from the South line and 2540 feet from the West line (Unit K) of Section 36, and its proposed Lowe State Gas Com Well No. 6 to be located 660 feet from the South line and 990 feet from the West line (Unit M) of Section 36, both in Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, to be located in the same quarter section.

(3) The applicant further seeks authority to simultaneously dedicate the Lowe State Well No. 5 and the Lowe State Gas Com Well No. 6 to a standard 320-acre spacing and proration unit comprising the W/2 of Section 36, Township 21 South, Range 23 East, NMPM.

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(4) The subject wells and proration unit are located within the Indian Basin-Upper Pennsylvanian Associated Pool. This pool is currently governed by the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool*" as established by Division Order No. R-9722, as amended, which provide that:

- (a) a standard oil proration unit shall comprise 320 acres. A standard gas proration unit shall comprise 320 acres;
- (b) no more than one well per 80-acre tract shall be drilled or produced on a standard proration unit; provided however, that pursuant to Division Order No. R-9922-E, certain acreage within the pool, including the W/2 of Section 36, Township 21 South, Range 23 East, is limited to a well density of no more than one well per quarter section, and no more than two wells per standard proration unit;
- (c) each well shall be located no closer than 660 feet to the outer boundary of the proration unit nor closer than 330 feet to any quarter-quarter section line or subdivision inner boundary; and
- (d) the special depth bracket allowable for a standard 320-acre proration unit is 1,400 barrels of oil per day. The limiting gas-oil ratio is 7,000 cubic feet of gas per barrel of oil.

(5) The evidence presented by Kerr-McGee and Division records demonstrate that:

- (a) the Lowe State Well No. 5 was drilled in 1999 by Kerr-McGee and was completed in the Pennsylvanian (Cisco) formation through the perforated interval from 7,421 feet to 7,559 feet;

- (b) the Lowe State Well No. 5 initially produced at a test rate of 4.2 MMCF of gas, 5 barrels of oil, and 2,417 barrels of water per day. The well currently produces at a rate of approximately 3.8 MMCF of gas, 30 barrels of oil, and 282 barrels of water per day;
- (c) the Lowe State Well No. 5 has cumulatively produced 6.56 BCF of gas, 18,874 barrels of oil and 901,695 barrels of water from the Pennsylvanian (Cisco) interval;
- (d) the NW/4 of Section 36 has been previously produced in this Pennsylvanian (Cisco) reservoir by the existing Kerr-McGee Lowe State Gas Com Well No. 1 (API No. 30-015-10342) located 1995 feet from the North line and 1712 feet from the West line (Unit F). This well, which is currently shut-in due to mechanical problems, cumulatively produced 16.89 BCF of gas, 144,267 barrels of oil and 796,700 barrels of water from this reservoir; and
- (e) one additional well previously produced from this Pennsylvanian (Cisco) reservoir within the W/2 of Section 36, the Kerr McGee Lowe State Gas Com Well No. 2 (API No. 30-015-25654) located 330 feet from the South and West lines (Unit M). This well, which has been abandoned in the Pennsylvanian (Cisco) interval and recompleted to the Morrow formation, cumulatively produced 1.89 BCF of gas, 3,560 barrels of oil, and 2,184 barrels of water from this reservoir.

(6) Kerr-McGee presented geologic evidence that demonstrates that:

- (a) although the Cisco dolomite is present throughout the W/2 of Section 36, there is a thickening of this dolomite within the SW/4 of this section; and
- (b) the SW/4 of Section 36 is structurally higher in the Pennsylvanian (Cisco) reservoir than the NW/4 of Section 36. In terms of producing the remaining gas reserves within the W/2 of Section 36, the SW/4 is geologically favorable to the NW/4 due to the presence of water in the reservoir.

(7) Kerr-McGee testified that due to the extensive depletion in this reservoir that has already occurred within the NW/4 of Section 36 by virtue of the production from the Lowe State Gas Com Well No. 1, it may not be economic to drill an additional well in this quarter section to replace the Lowe State Gas Com Well No. 1.

(8) The majority of the remaining gas reserves in the Pennsylvanian (Cisco) reservoir within the W/2 of Section 36 are located within the SW/4.

(9) The Lowe State Gas Com Well No. 2 produced only from the upper portion of this Pennsylvanian (Cisco) reservoir. In its Lowe State Gas Com Well No. 6, Kerr-McGee proposes to perforate an additional 200 feet of dolomite that was not produced within the Lowe State Gas Com Well No. 2.

(10) The proposed Lowe State Gas Com Well No. 6 may recover gas reserves from the Pennsylvanian (Cisco) interval that may otherwise not be recovered by the existing Lowe State Well No. 5, thereby preventing waste.

(11) The combination of geologic and engineering circumstances existing within the W/2 of Section 36 provide sufficient justification to approve Kerr-McGee's application.

Marathon
conditional
consent

(12) Kerr-McGee has notified all offset operators of its application in this case. Kerr-McGee presented waivers of objection to the application from Marathon Oil Company, Devon Energy Production, L.P. and Yates Petroleum Corporation, being the three affected offset operators. The waiver of objection from Marathon Oil Company is conditioned upon Kerr-McGee not drilling an additional well within the NW/4 of Section 36, and only producing a total of two wells within the W/2 of Section 36. Kerr-McGee has consented to Marathon Oil Company's stipulations.

(13) Approval of the subject application will afford Kerr-McGee the opportunity to produce its just and equitable share of the gas in the Indian Basin-Upper Pennsylvanian Pool underlying the W/2 of Section 36, will result in the recovery of additional gas reserves from this pool that may otherwise not be recovered, thereby preventing waste, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

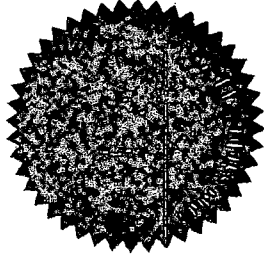
(1) The applicant, Kerr-McGee Oil & Gas Onshore L.L.C., is hereby granted an exception to the "Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool" and the provisions of Division Order No. R-9922-E, to allow both its existing Lowe State Well No. 5 (API No. 30-015-30583) located 1650 feet from the South line and 2540 feet from the West line (Unit K) of Section 36, and its proposed Lowe State Gas Com Well No. 6 to be located 660 feet from the South line and 990 feet from the West line (Unit M) of Section 36, both in Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, to be located in the same quarter section. The applicant is further authorized to simultaneously dedicate the Lowe State Well No. 5 and the Lowe State Gas Com Well No. 6 to a standard 320-acre spacing and proration unit comprising the W/2 of Section 36, Township 21 South, Range 23 East, NMPM, and to produce both wells concurrently.

(2) No additional well shall be drilled, recompleted or produced in the Indian Basin-Upper Pennsylvanian Associated Pool within the W/2 of Section 36 during the time period in which the Lowe State Well No. 5 and Lowe State Gas Com Well No. 6 are both being produced. The Division may allow the drilling, recompletion or production of an additional well in the Indian Basin-Upper Pennsylvanian Associated Pool within the W/2 of Section 36 in the event that either the Lowe State Well No. 5 or the Lowe State Gas Com Well No. 6 ceases producing from the Indian Basin-Upper Pennsylvanian Associated Pool.

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(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

Lori Wrotenbery
LORI WROTENBERY
Director