

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:

NOMENCLATURE  
CASE NO. 12782  
ORDER NO. R-9922-E

APPLICATION OF KERR-McGEE OIL & GAS ONSHORE L.L.C. FOR THE  
EXPANSION OF THE INDIAN BASIN-UPPER PENNSYLVANIAN ASSOCIATED  
POOL AND THE CONCOMITANT CONTRACTION OF THE INDIAN BASIN-  
UPPER PENNSYLVANIAN GAS POOL, AND FOR APPROVAL OF FOUR NON-  
STANDARD GAS PRORATION UNITS IN THE INDIAN BASIN-UPPER  
PENNSYLVANIAN GAS POOL, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 20, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 16th day of August, 2002, 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 Indian Basin-Upper Pennsylvanian Gas Pool currently comprises the following-described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

|                         |     |
|-------------------------|-----|
| Section 3:              | W/2 |
| Section 4:              | All |
| Sections 8 and 9:       | All |
| Section 10:             | W/2 |
| Section 15:             | W/2 |
| Sections 16 through 30: | All |
| Sections 32 through 35: | All |

Oil Conservation Division  
Case No. 2  
Exhibit No. 2

Section 36: W/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 19: All

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

Section 1: W/2

Sections 2 through 5: All

Sections 8 through 11: All

Section 12: W/2

Section 13: W/2

Sections 14 through 17: All

Section 21: N/2

Section 22: All.

(3) The Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool currently governed by: (i) Division Rule 605; and (ii) the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*," as promulgated by Division Order No. R-8170, as amended, which require standard 640-acre gas spacing and proration units ("GPU") with wells to be located no closer than 1650 feet from the outer boundary of the GPU nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary.

(4) However, Division Order No. R-9922-D, issued in Case No. 12006 and dated December 7, 1998, adjusted the pool boundaries of the Indian Basin-Upper Pennsylvanian Gas Pool and the Indian Basin-Upper Pennsylvanian Associated Pool and approved a non-standard 320-acre gas spacing and proration unit for the W/2 of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, for the Indian Basin-Upper Pennsylvanian Gas Pool [see *Ordering Paragraph No. (3) on page 11 of Order No. R-9922-D*]. Further, Division Order No. R-9922-D provided that any future well located within the W/2 of Section 12 is to be located no closer than 660 feet to the eastern boundary of this 320-acre unit.

(5) The Indian Basin-Upper Pennsylvanian Associated Pool currently comprises the following-described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

Section 36: E/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 16: W/2

|                         |     |
|-------------------------|-----|
| Sections 20 and 21:     | All |
| Section 27:             | S/2 |
| Sections 28 through 34: | All |

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

|             |     |
|-------------|-----|
| Section 1:  | E/2 |
| Section 12: | E/2 |
| Section 13: | E/2 |

TOWNSHIP 22 SOUTH, RANGE 24 EAST, NMPM

|                         |      |
|-------------------------|------|
| Sections 2 through 10:  | All  |
| Section 11:             | N/2  |
| Sections 16 through 18: | All. |

(6) The area encompassing the Indian Basin-Upper Pennsylvanian Associated Pool and the upper-Pennsylvanian interval (Cisco and Canyon formations) within one-mile is currently governed by the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool*," as promulgated by Division Orders No. R-9922, R-9922-A, R-9922-B, R-9922-C, and R-9922-D and the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest New Mexico and Southeast New Mexico*," as promulgated by Division Order No. R-5353, as amended, which require standard 320-acre oil and gas spacing and proration units, with wells to be located no closer than 660 feet from the outer boundary of the proration unit nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary, and allow no more than one well per 80-acre tract to be drilled or produced on a standard unit.

(7) The applicant, Kerr-McGee Oil & Gas Onshore L.L.C. ("Kerr-McGee") seeks an order expanding the Indian Basin-Upper Pennsylvanian Associated Pool to include the following lands (the "second extension area") in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

|             |     |
|-------------|-----|
| Section 25: | All |
| Section 35: | E/2 |
| Section 36: | W/2 |

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

|             |     |
|-------------|-----|
| Section 19: | All |
|-------------|-----|

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

|             |      |
|-------------|------|
| Section 1:  | W/2  |
| Section 2:  | E/2  |
| Section 11: | E/2  |
| Section 12: | W/2  |
| Section 13: | W/2  |
| Section 14: | E/2, |

The applicant also seeks the concomitant contraction of the Indian Basin-Upper Pennsylvanian Gas Pool in Eddy County, New Mexico by the deletion therefrom of:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

|             |     |
|-------------|-----|
| Section 25: | All |
| Section 35: | E/2 |
| Section 36: | W/2 |

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

|             |     |
|-------------|-----|
| Section 19: | All |
|-------------|-----|

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

|             |      |
|-------------|------|
| Section 1:  | W/2  |
| Section 2:  | E/2  |
| Section 11: | E/2  |
| Section 12: | W/2  |
| Section 13: | W/2  |
| Section 14: | E/2. |

(8) In conjunction with the proposed adjustment to the boundaries of the two subject pools, the applicant seeks to establish the following four 320-acre, more or less, GPU's within the Indian Basin-Upper Pennsylvanian Gas Pool in Eddy County, New Mexico:

(A) the W/2 of Section 35, Township 21 South, Range 23 East, NMPM, comprising 320 acres, which is to be simultaneously dedicated to Marathon Oil Company's ("Marathon"): (i) Federal "C-35" Well No. 1 (API No. 30-015-10403), located 1650 feet from the North and West lines (Unit F) of Section 35; and (ii) Federal "C-35" Well No. 2 (API No. 30-015-27629), located 800 feet from the South and

West lines (Unit M) of Section 35 [*This well was the subject of Division Order No. R-9910, issued in Case No. 10736 on June 9, 1993, which order approved the unorthodox gas well location within a standard 640-acre gas spacing and proration unit comprising all of Section 35 and assessed a production penalty to the 640-acre unit of 38 %.*];

(B) Lots 3 and 4, the S/2 NW/4, and the SW/4 (W/2 equivalent) of Section 2, Township 22 South, Range 23 East, NMPM, comprising 337.47 acres, which is to be simultaneously dedicated to Kerr-McGee's: (i) Conoco State Well No. 4 (API No. 30-015-30621), located 1900 feet from the South line and 1750 feet from the West line (Unit K) of Section 2; and (ii) Conoco State Well No. 7 (API No. 30-015-30875), located 1706 feet from the North line and 1828 feet from the West line (Unit F) of Section 2 [*This well was the subject of Division Administrative Order NSL-4386-A (SD), which order approved the unorthodox gas well location within an existing gas spacing and proration unit comprising all of irregular Section 2.*];

(C) the W/2 of Section 11, Township 22 South, Range 23 East, NMPM, comprising 320 acres, which is to be simultaneously dedicated to Marathon's: (i) Smith Federal Well No. 1 (API No. 30-015-10567), located 1650 feet from the North and West lines (Unit F) of Section 11; and (ii) Smith Federal Well No. 2 (API No. 30-015-29789), located 1465 feet from the South line and 800 feet from the West line (Unit L) of Section 11 [*This well was the subject of Division Administrative Order NSL-3855 (SD), dated August 15, 1997, which order approved the unorthodox gas well location within a standard 640-acre gas spacing and proration unit comprising all of Section 11 and assessed a production penalty to the 640-acre unit of 27 %.*]; and

(D) the W/2 of Section 14, Township 22 South, Range 23 East, NMPM, comprising 320 acres, which is to be dedicated to Marathon's Federal "IBB" Gas Com Well No. 1 (API No. 30-015-10744), located 1650 feet from the North and West lines (Unit F) of Section 14.

(9) In addition to the above-described Marathon Federal "C-35" Well No. 2 and Smith Federal Well No. 2 and Kerr-McGee Conoco State Well No. 7 currently located at unorthodox gas well locations within the Indian Basin-Upper Pennsylvanian Gas Pool, the proposed acreage and pool rededication result in Marathon's Federal "C-35" Well No. 1, Kerr-McGee's Conoco State Well No. 4, Marathon's Smith Federal Well No. 1, and Marathon's Federal "IBB" Gas Com. Well No. 1 also become unorthodox under the pool rules currently governing the Indian Basin-Upper Pennsylvanian Gas Pool.

(10) The proposed acreage and pool rededication result in the following wells becoming unorthodox under the well location requirements of the Indian Basin-Upper Pennsylvanian Associated Pool:

(A) Marathon's Federal "C-35" Well No. 3 (API No. 30-015-30619), located 1500 feet from the South line and 2080 feet from the East line (Unit J) of Section 35, Township 21 South, Range 23 East, NMPM [*This well was the subject of Division Administrative Order NSL-4255 (SD), which order approved the unorthodox second infill gas well location within a standard 640-acre gas spacing and proration unit comprising all of Section 35 and confirmed the production penalty to the 640-acre unit of 38 % previously assessed by Division Order No. R-9910.*];

(B) the Yates Petroleum Corporation ("Yates") Smith Federal Gas Com. Well No. 2 (API No. 30-015-26834), located 2049 feet from the North line and 480 feet from the West line (Unit E) of Section 12, Township 22 South, Range 23 East, NMPM [*This well was the subject of Division Order No. R-9922-D, issued in Case No. 12006 on December 7, 1998, which order approved the unorthodox gas well location within a non-standard 320-acre gas spacing and proration unit comprising the W/2 of Section 12.*];

(C) Yates's Smith Federal Gas Com. Well No. 3 (API No. 30-015-30687), located 1797 feet from the North line and 2159 feet from the West line (Unit F) of Section 12 [*This well was the subject of Division Administrative Order NSL-4664 (SD), dated November 19, 2001, which order approved the unorthodox infill gas well location within a non-standard*

*320-acre gas spacing and proration unit comprising the W/2 of Section 12.]; and*

(D) Yates's HOC Federal Gas Com. Well No. 2 (**API No. 30-015-26939**), located 330 feet from the North and West lines (Unit D) of Section 13, Township 22 South, Range 23 East, NMPM [*This well was the subject of Division Order No. R-9922-D, issued in Case No. 12006 on December 7, 1998, which order approved the unorthodox gas well location within a non-standard 320-acre gas spacing and proration unit comprising the W/2 of Section 13.*].

(11) Finally, the applicant requests that within the proposed second extension area to the Indian Basin-Upper Pennsylvanian Associated Pool only one well be allowed per quarter section. HOWEVER, the applicant requests that the following existing wells that are located on the same quarter sections be allowed to produce concurrently:

(A) in the NW/4 of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, Yates's previously described Smith Federal Gas Com. Wells No. 2 and 3 in Units "E" and "F" respectively; and

(B) in the NW/4 of Section 13, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, Yates's: (i) HOC Federal Well No. 1 (**API No. 30-015-10721**), located 1650 feet from the North and West lines (Unit F) of Section 13; and (ii) previously described HOC Federal Gas Com. Well No. 2 located in Unit "D" of Section 13.

(12) The applicant presented geologic, petroleum engineering, oil and gas mineral ownership, and land evidence that is summarized as follows:

(A) Both the Indian Basin-Upper Pennsylvanian Gas Pool ("Gas Pool") and Indian Basin-Upper Pennsylvanian Associated Pool ("Associated Pool") are defined by a fault to the west and a zero dolomite contour in the rest of the field, within which virtually all Upper Pennsylvanian production has occurred.

(B) By Division Order No. R-9922-D, issued in Case No. 12006 on December 7, 1998, approximately ten sections of land were deleted from the Gas Pool and added to the Associated Pool (the "1998 extension area").

(C) Cumulative production in the Gas Pool to the west of the proposed second extension area is approximately 50 BCF/section. Recoveries are lower to the east, in the Associated Pool, although production has increased dramatically in the Associated Pool over the last several years. Several wells in the proposed second extension area have their production curtailed by the Gas Pool's allowable.

(D) Of the 179 wells that have produced in both pools, 115 have been completed since 1990, with the majority in the Associated Pool. Well density is higher in the Associated Pool than in the Gas Pool, with as many as five wells per section.

(E) Significant water production continues to move westward across the pools. Large volumes of oil and gas production have accompanied high volumes of water production in the Associated Pool.

(F) Average production per well in the Gas Pool peaked in 1994 at over 4.5 MMCFG/day, and has since declined to approximately 1.5 MMCFG/day. However, in the Associated Pool average production per well has increased from several hundred MCFG/day to over 3 MMCFG/day during the same period. Water production has increased to over 2000 BWPD per well in the Associated Pool.

(G) Along with higher gas and water volumes, oil production has increased over time in the Associated Pool, indicating that increasing fluid withdrawals increases oil production.

(H) Wells in the proposed second extension area exhibit similar producing rates and characteristics as wells in the 1998 extension area. In addition, of the 25 flowing wells in these



pools, only two are located in the Associated Pool or in the proposed second extension area. The remaining 23 flowing wells are in the Gas Pool.

(I) Oil produced from wells in the proposed second extension area has a gravity of 40° API and is greenish-yellow in color, which is similar to that produced in the Associated Pool to the east, while oil produced to the west, in the Gas Pool, has a gravity of 60° to 70° API, and is clear in color.

(J) At the time of the hearing on the 1998 extension area, pressures were approximately 1600 psi in the Associated Pool and 500 psi in the Gas Pool. Pressures in the Associated Pool are currently about 800 psi versus approximately 400 psi in the Gas Pool.

(K) The proposed extension of the Associated Pool is necessary to allow wells in the proposed second extension area to compete with wells in both the Gas Pool and the Associated Pool.

(L) The one well per quarter section limitation in the proposed second extension area provides a buffer zone to prevent unfair competition between the Associated Pool and the Gas Pool.

(M) Existing wells or future wells in the four non-standard GPU's in the Gas Pool that are located no closer than 660 feet to the eastern boundaries of the non-standard GPU's and comply with the set-back requirements provided by the special rules governing the Indian Basin-Upper Pennsylvanian Gas Pool should be considered acceptable. The following gas wells would meet these criteria: (i) Marathon's Federal "C-35" Well No. 1; (ii) Kerr-McGee's Conoco State Well No. 4; (iii) Kerr-McGee's Conoco State Well No. 7; (iv) Marathon's Smith Federal Well No. 1; and (v) Marathon's Federal "IBB" Gas Com. Well No. 1.

(N) The granting of this application will not impair the correlative rights:

(i) of any interest owner in Section 19, Township 21 South, Range 24 East, NMPM, Eddy County, New Mexico, because there is no current production from the Cisco/Canyon formations in that section;

(ii) of any interest owner in Section 25 or 35, Township 21 South, Range 23 East, NMPM, or Section 11, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, because those sections are each covered by a single federal lease, with common interest ownership throughout the section;

(iii) of any working interest owner in the existing 640-acre GPU covering Section 14, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, because there is a voluntary joint operating agreement in place under which those owners will continue to share in production and pay costs from the new 320-acre spacing units on the same proportional basis as in the original 640-acre unit;

(iv) of any royalty, overriding royalty, or production payment interest owner in the existing 640-acre GPU covering Section 14, because there is a federal communitization agreement in place under which those owners will continue to share in production from the new 320-acre spacing units on the same proportional basis as in the original 640-acre unit; and

(v) of interest owners in Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, which comprises two State of New Mexico leases, because there

are no overriding royalty owners and the State Land Office desires that the existing 674.28-acre communitization agreement terminate and be replaced by:

(a) a 336.81-acre communitization agreement covering Lots 1, 2, S/2 NE/4, and SE/4 of Section 2, and

(b) a 337.47-acre communitization agreement covering Lots 3, 4, S/2 NW/4, and SW/4 of Section 2

(O) The correlative rights of interest owners in the W/2 of Section 36, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico and the W/2 of Section 1, W/2 of Section 12, and W/2 of Section 13, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico, were addressed in Division Order No. R-9922-D.

(13) The evidence presented at the hearing indicates that:

(A) The Cisco/Canyon formations are continuous across the Associated Pool and the proposed second extension area, and wells within these two areas exhibit similar producing characteristics and should be subject to the same special rules and regulations.

(B) Substantial volumes of oil and gas can be economically produced from the proposed second extension area if that area is subject to the same rules currently applicable to the Associated Pool, thereby preventing waste.

(C) Making the proposed second extension area part of the Associated Pool will afford the opportunity to produce large volumes of water, which improves recovery efficiencies of both oil and gas.

(D) The approval of the above-described four 320-acre, more or less, non-standard GPU's, and the one well per 160-

acre limitation, will establish a "buffer" or transition zone between the Gas Pool and the Associated Pool, which will establish equity and protect correlative rights.

(14) All operators in both the Gas Pool and the Associated Pool have met and discussed the proposals presented in this case and are in agreement with the applicant's proposals.

(15) Notification of this application and request for hearing was sent to all operators in both the Gas Pool and the Associated Pool, and all other interest owners in the proposed second extension area, in accordance with Division procedures. No objections have been received by the Division or by the applicant, and no operator or interest owner appeared at the hearing in opposition to the application.

(16) Yates appeared at the hearing and presented a statement in support of the application.

(17) In order to prevent waste, prevent the drilling of unnecessary wells, protect correlative rights, and provide for more orderly development of the Cisco/Canyon formations underlying the proposed second extension area, it is necessary to:

(A) contract the Indian Basin-Upper Pennsylvanian Gas Pool and expand the Indian Basin-Upper Pennsylvanian Associated Pool as described in Finding Paragraph No. (7) above;

(B) approve the four non-standard 320-acre, more or less, GPU's within the Gas Pool as described in Finding Paragraph No. (8) above;

(C) confirm the following two previously approved unorthodox gas well locations in the Indian Basin-Upper Pennsylvanian Gas Pool within their respective non-standard 320-acre, more or less, GPU's:

(i) Marathon's ("Marathon") Federal "C-35" Well No. 2 (API No. 30-015-27629), located 800 feet from the South and West lines (Unit M) of Section 35, Township 21 South, Range 23 East, NMPM, Eddy County,

New Mexico; and

(ii) Marathon's Smith Federal Well No. 2 (API No. 30-015-29789), located 1465 feet from the South line and 800 feet from the West line (Unit L) of Section 11, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico;

(D) approve the following four unorthodox wells in the Indian Basin-Upper Pennsylvanian Associated Pool:

(i) Marathon's Federal "C-35" Well No. 3 (API No. 30-015-30619), located 1500 feet from the South line and 2080 feet from the East line (Unit J) of Section 35, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico;

(ii) the Yates's Smith Federal Gas Com. Well No. 2 (API No. 30-015-26834), located 2049 feet from the North line and 480 feet from the West line (Unit E) of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico;

(iii) Yates's Smith Federal Gas Com. Well No. 3 (API No. 30-015-30687), located 1797 feet from the North line and 2159 feet from the West line (Unit F) of Section 12; and

(iv) Yates's HOC Federal Gas Com. Well No. 2 (API No. 30-015-26939), located 330 feet from the North and West lines (Unit D) of Section 13, Township 22 South, Range 23 East, NMPM, Eddy County New Mexico; and

(E) approve the two existing wells in the NW/4 of Section 12 and the two existing wells in the NW/3 of Section 13, all in Township 22 South, Range 23 East, NMPM, Eddy County,

New Mexico, as described in Finding Paragraph No. (11) above.

(18) Granting the application will allow the interest owners the opportunity to economically recover their share of oil and gas in the subject pools, will not reduce the ultimate recovery from the pools, and will not violate correlative rights.

**IT IS THEREFORE ORDERED THAT:**

(1) The Indian Basin-Upper Pennsylvanian Gas Pool in Eddy County, New Mexico, as heretofore classified, defined, and described, is hereby contracted by the deletion of the following area:

**TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM**

|             |     |
|-------------|-----|
| Section 25: | All |
| Section 35: | E/2 |
| Section 36: | W/2 |

**TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM**

|             |     |
|-------------|-----|
| Section 19: | All |
|-------------|-----|

**TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM**

|             |      |
|-------------|------|
| Section 1:  | W/2  |
| Section 2:  | E/2  |
| Section 11: | E/2  |
| Section 12: | W/2  |
| Section 13: | W/2  |
| Section 14: | E/2. |

(2) Concomitantly, the Indian Basin-Upper Pennsylvanian Associated Pool in Eddy County, New Mexico, as heretofore classified, defined, and described, is hereby extended to include the following area:

**TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM**

|             |     |
|-------------|-----|
| Section 25: | All |
| Section 35: | E/2 |
| Section 36: | W/2 |

**TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM**

|             |     |
|-------------|-----|
| Section 19: | All |
|-------------|-----|

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

|             |      |
|-------------|------|
| Section 1:  | W/2  |
| Section 2:  | E/2  |
| Section 11: | E/2  |
| Section 12: | W/2  |
| Section 13: | W/2  |
| Section 14: | E/2. |

(3) The following four non-standard 320-acre, more or less, gas spacing and proration units ("GPU") within the Indian Basin-Upper Pennsylvanian Gas Pool in Eddy County, New Mexico, are hereby approved:

(A) the W/2 of Section 35, Township 21 South, Range 23 East, NMPM, comprising 320 acres, which is to be simultaneously dedicated to Marathon Oil Company's ("Marathon"): (i) Federal "C-35" Well No. 1 (API No. 30-015-10403), located 1650 feet from the North and West lines (Unit F) of Section 35; and (ii) Federal "C-35" Well No. 2 (API No. 30-015-27629), located at a previously approved unorthodox gas well location (see Division Order No. R-9910, issued in Case No. 10736 on June 9, 1993) 800 feet from the South and West lines (Unit M) of Section 35;

(B) Lots 3 and 4, the S/2 NW/4, and the SW/4 (W/2 equivalent) of Section 2, Township 22 South, Range 23 East, NMPM, comprising 337.47 acres, which is to be simultaneously dedicated to Kerr-McGee Oil & Gas Onshore L.L.C.'s: (i) Conoco State Well No. 4 (API No. 30-015-30621), located 1900 feet from the South line and 1750 feet from the West line (Unit K) of Section 2; and (ii) Conoco State Well No. 7 (API No. 30-015-30875), located 1706 feet from the North line and 1828 feet from the West line (Unit F) of Section 2;

(C) the W/2 of Section 11, Township 22 South, Range 23 East, NMPM, comprising 320 acres, which is to be simultaneously dedicated to Marathon's: (i) Smith Federal Well No. 1 (API No. 30-015-10567), located 1650 feet from the North and West lines (Unit F) of Section 11; and (ii)

Smith Federal Well No. 2 (API No. 30-015-29789), located at a previously approved unorthodox gas well location (see Division Administrative Order NSL-3855 (SD), dated August 15, 1997) 1465 feet from the South line and 800 feet from the West line (Unit L) of Section 11; and

(D) the W/2 of Section 14, Township 22 South, Range 23 East, NMPM, comprising 320 acres, which is to be dedicated to Marathon's Federal "IBB" Gas Com Well No. 1 (API No. 30-015-10744), located 1650 feet from the North and West lines (Unit F) of Section 14.

(4) Any existing well or future well located in any of these four non-standard GPU's that is no closer than 660 feet to the eastern boundary of the unit and meets the set back requirements as provided in the special pool rules shall be considered to be located at a standard location.

(5) The apportionment of gas allowables for the four non-standard GPU's shall be accomplished by applying a 0.5, more or less, acreage factor to each of the non-standard GPU's.

(6) The two previously approved unorthodox gas well locations in the Indian Basin-Upper Pennsylvanian Gas Pool for Marathon's: (i) Federal "C-35" Well No. 2; and (ii) Smith Federal Well No. 2 are hereby approved for their respective non-standard 320-acre, more or less, GPU's.

(7) The unorthodox locations for the following four wells in the Indian Basin-Upper Pennsylvanian Associated Pool, which become unorthodox as a result of the change in pool boundary, are hereby approved:

(A) Marathon's Federal "C-35" Well No. 3 (API No. 30-015-30619), located 1500 feet from the South line and 2080 feet from the East line (Unit J) of Section 35, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico;

(B) the Yates Petroleum Corporation ("Yates") Smith Federal Gas Com. Well No. 2 (API No. 30-015-26834), located 2049 feet from the North line and 480 feet from the West line (Unit E) of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico;



(C) Yates's Smith Federal Gas Com. Well No. 3 (API No. 30-015-30687), located 1797 feet from the North line and 2159 feet from the West line (Unit F) of Section 12; and

(D) Yates's HOC Federal Gas Com. Well No. 2 (API No. 30-015-26939), located 330 feet from the North and West lines (Unit D) of Section 13, Township 22 South, Range 23 East, NMPM, Eddy County New Mexico.

(8) The locations of all duly permitted wells presently drilling to either the Indian Basin-Upper Pennsylvanian Associated Pool or the Indian Basin-Upper Pennsylvanian Gas Pool within this contraction/expansion area are hereby approved; the operator of any well having an unorthodox location shall notify the Artesia District Office of the Division in writing of the name and location of the well within thirty days from the date of this order.

(9) Only one well in the Indian Basin-Upper Pennsylvanian Associated Pool shall be allowed per quarter section in the lands described in Ordering Paragraph No. (1) above. HOWEVER, the following existing wells that are located on the same quarter sections shall be allowed to produce concurrently:

(A) in the NW/4 of Section 12, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico Yates's previously described Smith Federal Gas Com. Wells No. 2 and 3 in Units "E" and "F" respectively; and

(B) in the NW/4 of Section 13, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico Yates's: (i) HOC Federal Well No. 1 (API No. 30-015-10721), located 1650 feet from the North and West lines (Unit F) of Section 13; and (ii) previously described HOC Federal Gas Com. Well No. 2 located in Unit "D" of Section 13.

(10) Pursuant to Paragraph A of Section 70-2-18, NMSA (1978), contained in Chapter 271, Laws of 1969, existing wells in the Indian Basin-Upper Pennsylvanian Associated Pool within this expansion area shall have dedicated thereto 320 acres in accordance with the resulting change of pool rules; or, pursuant to Paragraph C of Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

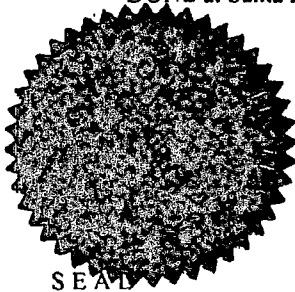
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Failure to file new Forms C-102 with the Division dedicating 320 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to being shut-in

(11) Jurisdiction of this case 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*  
LORI WROTENBERY  
Director