

**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. 14160
ORDER NO. R-13042**

**APPLICATION OF KERNS PETROLEUM,
INC. FOR POOL CREATION, A DISCOVERY
ALLOWABLE, AND SPECIAL POOL RULES,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 7, 2008, in Santa Fe, New Mexico, before Examiners William V. Jones, Terry Warnell, and David K. Brooks.

NOW, on this 6th day of November, 2008, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Kerns Petroleum, Inc. ("applicant") seeks an order (i) creating a new pool for production of oil from the Yates and Seven Rivers formations, comprising the NW/4 of Section 36, Township 21 South, Range 35 East, N.M.P.M., (ii) granting a discovery allowable, and (iii) establishing special rules and regulations for the pool, including a special depth bracket allowable of 350 barrels of oil per day. Applicant further requests that the order be effective as of the date of first production from the discovery well.

(3) The discovery well for the pool is the Eumont State Well No. 1 (API No. 30-025-38561), located 900 feet from the North line and 1650 feet from the West line of Section 36. The well was completed on May 16, 2008 with a top perforation in the Seven Rivers formation at 3,962 feet subsurface.

(4) Under Division Rule NMAC 19.15.13.1210.A(4)(b), applicant was required to give notice of this application to (i) Division-designated operators in the Pool, and (ii) Division-designated operators of wells in the same formation as the Pool and within one mile of the Pool's outer boundary which have not been assigned to another pool. Applicant gave notice as required. No operator entered an appearance or objected to the application.

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

(a) The Eumont State Well No. 1 is a flowing oil well capable of producing in excess of 400 barrels of (31 gravity) oil per day. The well's gas:oil ratio is less than 300 cubic feet of gas per barrel of oil produced. The well is producing from Seven Rivers perforations from 3962 to 3968 feet deep and has additional prospective pay up-hole in the Yates formation.

(b) The Division's geologist in the Hobbs district office initially placed the Eumont State Well No. 1 in the Jalmat Gas Pool but has since suggested the Pool be named the Urssey Tank; Yates-Seven Rivers Pool.

(c) The NW/4 of Section 36 is located near the Eumont (Yates-Seven Rivers-Queen) Gas Pool and the Jalmat (Tansill-Yates-Seven Rivers) Gas Pool. Both pools provide for oil wells therein to be spaced on 40 acres, and the depth bracket allowable in each pool is 80 barrels oil per day. The nearest producing Eumont and Jalmat wells are gas wells producing at low rates.

(d) The NW/4 of Section 36 is down slope from the Eumont Gas Pool and the Jalmat Gas Pool.

(e) The Yates-Seven Rivers formation's structure in the Eumont State Well No. 1 is a four-way closure defined by 3-D seismic. The structure is separated vertically and horizontally from nearby Eumont and Jalmat Yates-Seven Rivers production, indicating a separate reservoir.

(f) The productive Yates-Seven Rivers structure is located wholly within the NW/4 of Section 36. The NW/4 of Section 36 is covered entirely by State Lease VB-1119, which has common ownership.

(g) The producing reservoir appears to be water drive. However, water production is low, at approximately 1 barrel of water per 100 barrels of oil produced.

(h) Drawdown data indicates that wells may be produced at high rates without damaging this Seven Rivers reservoir.

(6) The Yates-Seven Rivers structure present in the Eumont State Well No. 1 is geologically separate from the Jalmat Gas Pool and the Eumont Gas Pool, and the Urssey Tank; Yates-Seven Rivers Pool should be created.

(7) The geologic and engineering evidence presented by applicant demonstrates that the Eumont State Well No. 1 is a *bona fide* discovery well in a new common source of supply, and as such is entitled to a discovery allowable as provided in Division Rule 19.15.13.509 NMAC.

(8) The geologic and engineering evidence presented by applicant further demonstrates that a special depth bracket allowable of 350 barrels of oil per day in the Urssey Tank; Yates-Seven Rivers Pool, effective as of the date of first production from the discovery well, will not harm the reservoir and will prevent waste.

(9) Approval of the subject application will afford applicant and other operators the opportunity to recover their just and equitable shares of oil and gas reserves from the Urssey Tank; Yates-Seven Rivers Pool, thereby preventing waste, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Kerns Petroleum, Inc., the **Urssey Tank; Yates-Seven Rivers Pool** is hereby created, initially comprising the NW/4 of Section 36, Township 21 South, Range 35 East, N.M.P.M., Lea County, New Mexico.

(2) The following "*Special Rules for the Urssey Tank; Yates-Seven Rivers Pool*" are hereby adopted:

Rule 1: Each well completed or recompleted into the Urssey Tank; Yates-Seven Rivers Pool, or within one mile thereof and not nearer to or within the limits of another Yates-Seven Rivers pool, shall be drilled, spaced, operated, and produced in accordance with the Special Rules hereinafter set forth.

Rule 2: The allowable for a standard proration unit shall be based on a depth bracket allowable of 350 barrels of oil per day. In the event there is more than one well on a 40-acre proration unit, the operator may produce the allowable assigned to the unit from wells on the unit in any proportion.

Rule 3: All other rules shall conform to the Division's statewide rules.

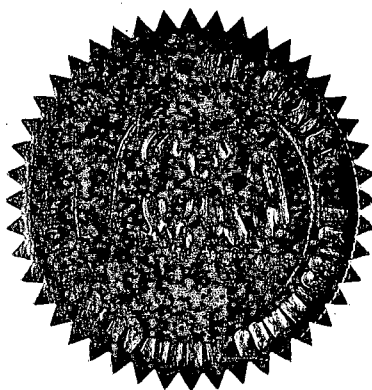
(3) The *Special Rules for the Urssey Tank; Yates-Seven Rivers Pool* shall be effective as of the date of first production from the Yates or the Seven Rivers formations in the Eumont State Well No. 1.

(4) The Eumont State Well No. 1, as the discovery well in this Pool, is hereby granted a discovery allowable of $3,962 \times 5 = 19,810$ barrels of oil, producible in accordance with Division Rule NMAC 19.15.13.509 effective as of 7:00 a.m. of June 1, 2008.

(5) As per Division Rule 509.F, the 19,810 barrel discovery allowable shall be produced over a two-year period commencing with June 1, 2008, at a rate not to exceed 378 barrels per day ($350 + (19810/730)$).

(6) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.
Director