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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

September 27, 1995

HAND DELIVERED

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

*Re: NMOCD Case 11333
Application of Marathon Oil Company
for Expansion of the Cemetery-Morrow Gas Pool
and the Contraction of the Indian Basin-Morrow Gas Pool,
Eddy County, New Mexico*

Dear Mr. Stogner:

On behalf of Marathon Oil Company, please find enclosed our proposed order for your consideration in this matter which was presented to you at the hearing held on July 13, 1995. I have enclosed a copy of this draft order on the enclosed 5.25 diskette which is formatted to wordperfect 5.1

Subsequent to the hearing you requested that Marathon Oil Company conduct a survey of operators in the Indian Basin-Morrow Gas Pool soliciting their opinions on (a) contracting the pool boundaries, (b) confining the pool rules only to acreage actual within those boundaries, (c) well density and (d) terminating prorationing.

I have enclosed copies of the operators responses.

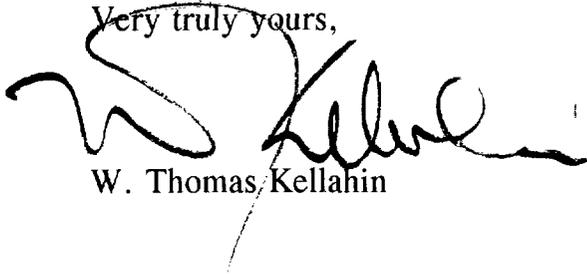
While none of these operators in a party to the subject case, all operators favor increasing well density in the pool and terminating prorationing. With the exception of Yates Petroleum Corporation, all other operators approve the contraction of the Indian Basin Morrow Gas Pool and "freezing" the boundary as we have requested in this application.

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Yates Petroleum Corporation only operates well on the far eastern edge of the pool some four miles from the acreage involved in this case. Their concerns about downspacing do not apply to the subject acreage because there is only one currently producing Morrow gas well and its entire 640-acre spacing unit has common ownership which will not be affected by downspacing. (See Section 2).

We believe the enclosed order satisfactorily resolves this application and we will proceed with our discussions with the other Morrow operators at Indian Basin as to how to deal with these other issues in the pool. Please call me if you would like to discuss this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name below. The signature is fluid and cursive.

W. Thomas Kellahin

cc: Marathon Oil Company
Attn: Thomas C. Lowry, Esq.

**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. 11333
ORDER NO. R-_____

APPLICATION OF MARATHON OIL COMPANY
FOR THE EXPANSION OF THE CEMETERY-
MORROW GAS POOL AND THE CONTRACTION
OF THE INDIAN BASIN-MORROW GAS POOL,
EDDY COUNTY, NEW MEXICO

MARATHON OIL COMPANY'S
PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 13, 1995, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of September, 1995, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Marathon Oil Company ("Marathon"), seeks an order expanding the Cemetery Morrow Gas Pool to include all of Irregular Sections 35 and 36, Township 20-1/2 South, Range 23 East, and all of Sections 1, 2, 11, 12, 13 and 14 of Township 21 South, Range 23 East, Eddy County, New Mexico **and** the corresponding contraction of the Indian Basin-Morrow Gas Pool by the deletion therefrom of the W/2 of Section 2, the W/2 of Section 11 and all of Section 14, T21S, R23E.

(3) Marathon is the operator of the North Indian Basin Unit which includes all of Sections 2 and 11, Township 21 South, Range 23 East, Eddy County, New Mexico, and other lands not subject to this Application. Marathon is also the operator of leases covering all of Section 36, Township 20-1/2 South, Range 23 East, and all of Section 1 and the W/2 of Section 12, Township 21 South, Range 23 East, all in Eddy County, New Mexico. Marathon also owns undeveloped leasehold in the E/2 of Section 12, Township 21 South, Range 23 East, Eddy County, New Mexico.

(4) The Cisco/Canyon formation is the principal productive formation within the area described in paragraph (1) above and is included within the current boundaries of the South Dagger Draw-Upper Pennsylvanian Associated Pool which provides, among other things, for 320-acre proration and spacing units with standard well locations not closer than 660 feet to the outer boundary of said units.

(5) The Morrow formation underlying the W/2 of Sections 2 and 11 and all of Section 14, T21S, R23E, NMPM, is within the current boundaries of the Indian Basin-Morrow Gas Pool with the balance of the area described in paragraph (1) above being within one-mile of the outer boundaries of **both** the Cemetery-Morrow Gas Pool and the Indian Basin-Morrow Gas Pool.

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(6) The Cemetery-Morrow Gas Pool is subject to 320-acre standard gas spacing and proration units with wells to be located not closer than 1980 feet from the end boundaries nor closer than 660 feet from the side boundaries of said units, while the Indian Basin-Morrow Gas Pool is subject to 640-acre standard gas spacing and proration units with wells not closer than 1650 feet to any outer boundary of said units.

(7) Marathon presented land, geological and petroleum engineering data and conclusions to demonstrate that:

(a) the Morrow formation underlying the subject area is approximately 1600 feet below the Cisco/Canyon formation and is a secondary objective which only can be economically explored in conjunction with the drilling of a well for production from the Cisco/Canyon formation.

(b) the Morrow wells in both the Indian Basin-Morrow Gas Pool and the Cemetery-Morrow Gas Pool will drain no more than 320 acres.

(c) the Morrow formation constitutes one single common source of supply ("reservoir") in this particular area and there is no ownership, geologic, petroleum engineering or conservation reason to require that it be treated as separate pools.

(d) in order to afford an opportunity to drill a well to test both the Cisco/Canyon formation of the South Dagger Draw-Upper Pennsylvanian Associated Pool and the Morrow formation, it is necessary to have the Morrow formation spaced on the same 320-acre standard spacing pattern as established for the South Dagger Draw-Upper Pennsylvanian Associated Pool.

(e) the granting of this Application will allow the same ownership in the two formations because the spacing units will be the same.

(8) The Division **FINDS** that:

(a) the Morrow formation underlying Township 21 South Range 23 East is a single reservoir (ie, one single common sources of supply) the development of which has occurred such that wells in the northern portion have been dedicated to the Cemetery-Morrow Gas Pool while wells in the southern portion have been dedicated to the Indian Basin-Morrow Gas Pool.

(b) in order to afford an opportunity to drill a well to test both the Cisco/Canyon formation of the South Dagger Draw-Upper Pennsylvanian Associated Pool and the Morrow formation, it is necessary to have the Morrow formation spaced on the same 320-acre spacing pattern as established for the South Dagger Draw-Upper Pennsylvanian Associated Pool.

(c) In order to prevent the drilling of unnecessary wells, to protect correlative rights and provide for the orderly development of the Morrow reservoir as a secondary objective in conjunction with the drilling of Cisco/Canyon wells, it is necessary to contract the Indian Basin-Morrow Gas Pool;

(d) it is Division practice to extend pool boundaries to include only acreage dedicated to wells capable of production from that pool;

(e) a portion of Marathon's application would expand the Cemetery Morrow Gas Pool to also include Section 1 and 12, T21S, R23E, NMPM, which do not yet contain Morrow wells and would be inconsistent with Division practice.

(f) Marathon's objective may be obtained in a manner consistent with Division practice by the following:

(i) contracting the Indian Basin Morrow Gas Pool by deleting therefrom the W/2 of Section 2, the W/2 of Section 11 and all of Section 14, T21S, R23E;

(ii) declaring that the special rules and regulations for the Indian Basin-Morrow Gas Pool rules shall not apply beyond its current boundary;

(iii) that Morrow Gas wells drilled in Irregular Sections 35 and 36, Township 20-1/2 South, Range 23 East, and all of Sections 1, 2, 11, 12, 13 and 14 of Township 21 South, Range 23 East, Eddy County, New Mexico shall be subject either to Division General Rule 104 (statewide spacing and well locations) or to the Cemetery-Morrow Gas Pool rules as appropriate.

(9) Marathon was only interested party to appear and provide technical land, geologic and engineering testimony concerning the reservoir, these pools and its classification.

(10) Within the subject acreage, only Section 2 contains a Morrow gas well currently subject to the Indian Basin-Morrow Gas Pool and because all categories of owners in Section 2 have common ownership then no violation of correlative rights will occur by excluding this section from the rules for that pool.

(11) No other operator and/or interest owner appeared at the hearing in opposition to the application.

(12) Approval of Marathon's request will allow the interest owners the opportunity to economically recover their share of the oil and gas in the subject pool, will not reduce ultimate recovery from the subject pool, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The Indian Basin-Morrow Gas Pool is hereby **contracted** by the deletion therefrom of the W/2 of Section 2, the W/2 of Section 11 and all of Section 14, T21S, R23E.

(2) Marathon Oil Company's application to expand the Cemetery Morrow Gas Pool to include all of Irregular Sections 35 and 36, Township 20-1/2 South, Range 23 East, and all of Sections 1, 2, 11, 12, 13 and 14 of Township 21 South, Range 23 East, Eddy County, New Mexico is hereby **denied**.

(3) The special rules and regulations for the Indian Basin-Morrow Gas Pool rules shall not apply beyond its current boundary.

(4) Any Morrow Gas wells drilled in Irregular Sections 35 and 36, Township 20-1/2 South, Range 23 East, and all of Sections 1, 2, 11, 12, 13 and 14 of Township 21 South, Range 23 East, Eddy County, New Mexico shall be subject either to Division General Rule 104 (statewide spacing and well locations) or to the Cemetery-Morrow Gas Pool rules as appropriate.

(5) Jurisdiction of this cause 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

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WILLIAM J. LEMAY
Director

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