

**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. 11455
Order No. R-10546**

**APPLICATION OF OXY USA INC.
FOR AN UNORTHODOX GAS WELL
LOCATION AND SIMULTANEOUS
DEDICATION, EDDY COUNTY, NEW
MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 25, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 21 day of February, 1996, 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, Oxy USA Inc., seeks authority to drill its Government Nbfd Unit Well No. 1 at an unorthodox gas well location 660 feet from the South line and 330 feet from the West line (Unit M) of Section 11, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, to test all prospective formations from the top of the Wolfcamp to the base of the Devonian formation. The W/2 of Section 11 is to be dedicated to the subject well forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320 acres within this vertical extent. In addition, the SW/4 SW/4 of Section 11 is to be dedicated to the aforesaid well in the Devonian formation forming a standard 40-acre oil spacing and proration unit.

(3) The applicant further seeks authority to simultaneously dedicate the W/2 of Section 11 in the Wolfcamp formation to the aforesaid Government Nbfd Unit Well No. 1 and to its existing Government "AB" Well No. 1 located 1980 feet from the South and West lines (Unit K).

(4) The applicant further seeks authority to simultaneously dedicate the W/2 of Section 11 in the Morrow formation to the aforesaid Government Nbfd Unit Well No. 1 and to its existing Government "AB" Well No. 5 located 1980 feet from the North line and 660 feet from the West line (Unit E).

(5) According to Division records the proposed Government Nbfd Unit Well No. 1 is located within the North Burton Flat-Wolfcamp Gas Pool, within one mile of the Winchester-Strawn Gas Pool, within one mile of the Winchester-Atoka Gas Pool, and within the Burton Flat-Morrow Gas Pool. There is currently no production from the Devonian formation within one mile of the subject well.

(6) Applicant testified that utilizing 3-D seismic, it has identified a Devonian structure which encompasses portions of the W/2 of Section 11, E/2 of Section 10, and N/2 of Sections 14 and 15.

(7) Applicant's evidence and testimony indicates that the primary objective within the Government Nbfd Unit Well No. 1 is the Devonian formation. The well is proposed to be drilled at its present location (being a standard Devonian oil well location) for geologic considerations within the Devonian, Wolfcamp and Morrow formations.

(8) Applicant testified that it is highly likely that a single well will be capable of draining this entire Devonian structure.

(9) In order to assure that the correlative rights of all interest owners within the area encompassed by the Devonian structure are protected, the applicant has formed an "equity unit" comprising the W/2 of Section 11, E/2 of Section 10 and the N/2 of Sections 14 and 15. The applicant presented further testimony as to the nature and implementation of the "equity unit" as follows:

- a) the "equity unit" comprises four separate Federal leases, all currently operated by Oxy USA Inc.. The interest ownership between these four leases is not common;
- b) the "equity unit" has been approved by the Bureau of Land Management and by all parties owning an interest in the unit;

- c) all production proceeds from the Devonian, Morrow, Atoka, Strawn and Wolfcamp formations in the proposed Government Nbfd Unit Well No. 1 will be shared by all interest owners in the "equity unit" in proportion to their interest ownership;
- d) existing production within the "equity unit", namely Wolfcamp production from the Government "AB" Well Nos. 1 and 2, and the Government "T" Well Nos. 1 and 2, and Morrow production from the Government "AB" Well No. 5, and the Government "T" Well No. 1 is unaffected by the "equity unit" and will not be shared by unit interest owners;

(10) Applicant proposes to "package" the Devonian interval with secondary objectives which include the Wolfcamp, Strawn, Atoka and Morrow formations in order to reduce the risk associated with drilling a stand-alone Devonian well at this location.

(11) To support its request to drill the Government Nbfd Unit Well No. 1 at the proposed location, the applicant presented geologic evidence and testimony which indicates that:

- a) if the subject well is drilled at a standard gas well location within the SW/4 of Section 11, its structural position within the Devonian reservoir will be greatly diminished compared to a well drilled at the proposed location;
- b) a well drilled at the proposed unorthodox gas well location should encounter the potentially productive Morrow "A" sands (Lower sand interval) at a structurally higher position above the gas-water contact than a well drilled at a standard gas well location within the SW/4, thereby increasing the likelihood of encountering commercial gas production.
- c) the Morrow "A" sand interval is not present and therefore not being produced within the existing Government "AB" Well No. 5. The evidence indicates that this well is being produced from the Morrow "B" sand interval (Upper sand interval). The proposed Government Nbfd Unit Well No. 1 should recover gas reserves from the Morrow "A" sand interval within the W/2 of Section 11 which would otherwise not be recovered by the existing Government "AB" Well No. 5, thereby preventing waste;

- d) a well drilled at the proposed unorthodox gas well location should penetrate the Wolfcamp formation at a structurally higher position than a well drilled at a standard gas well location within the SW/4 of Section 11. Applicant further testified that structure and depositional circumstances should have resulted in pay intervals being present at the proposed location which are otherwise not present and therefore not being produced by the existing Government "AB" Well No. 1.

(12) Oxy USA Inc. is the operator of all affected offset acreage, and no other offset operator and/or interest owner appeared at the hearing in opposition to the application.

(13) Approval of the subject application will allow the applicant to economically and efficiently recover oil and gas reserves within the Devonian, Morrow, Atoka, Strawn and Wolfcamp formations underlying the W/2 of Section 11 and within the "equity unit" area, thereby preventing waste, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise protect the correlative rights of all interest owners within the "equity unit" area.

(14) Pursuant to Division Memorandum dated August 3, 1990 regarding Rule 104. C.2 of the General Rules and Regulations (Applications for additional wells on existing proration units within non-prorated gas pools), the applicant should be authorized to complete the proposed Government Nbfd Unit Well No. 1 only in those Morrow and Wolfcamp intervals which are currently not being produced within the Government "AB" Well Nos. 1 and 5. Upon completion of the subject well within the Morrow and/or Wolfcamp formations, the applicant should consult with the supervisor of the Hobbs district office in order to verify that the completion intervals within the Government Nbfd Unit Well No. 1 are in conformance with the above requirement.

(15) The applicant should be required to consult with Division and Taxation & Revenue Department ONGARD personnel in order to verify that the proposed Government Nbfd Unit Well No. 1 is set up within the ONGARD system in a manner which will ensure that revenue proceeds from the well are properly attributed and dispersed in accordance with the "equity unit" agreement.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Oxy USA Inc., is hereby authorized to drill its Government Nbfd Unit Well No. 1 at an unorthodox gas well location 660 feet from the South line and 330 feet from the West line (Unit M) of Section 11, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico, to test all prospective formations from the top of the Wolfcamp to the base of the Devonian formation.

(2) For administrative purposes, the SW/4 SW/4 of Section 11 shall be dedicated to the subject well in the Devonian formation forming a standard 40-acre oil spacing and proration unit.

(3) The W/2 of Section 11 shall be simultaneously dedicated to the Government Nbfd Unit Well No. 1 and to the existing Government "AB" Well No. 1 located 1980 feet from the South and West lines (Unit K) in the North Burton Flat-Wolfcamp Gas Pool forming a standard 320-acre gas spacing and proration unit for said pool.

(4) The W/2 of Section 11 shall be simultaneously dedicated to the Government Nbfd Unit Well No. 1 and to the existing Government "AB" Well No. 5 located 1980 feet from the North line and 660 feet from the West line (Unit E) in the Burton Flat-Morrow Gas Pool forming a standard 320-acre gas spacing and proration unit for said pool.

(5) The Division hereby recognizes applicant's "equity unit" which has been formed in order to protect the correlative rights of all interest owners within the productive area of the identified geologic structure.

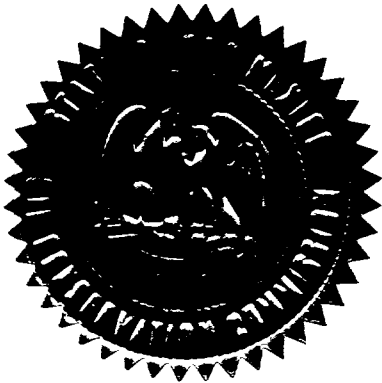
(6) The "equity unit" agreement shall be implemented in conformance with Finding No. (9) above.

(7) The applicant shall be authorized to complete the proposed Government Nbfd Unit Well No. 1 only in those Morrow and Wolfcamp intervals which are currently not being produced within the Government "AB" Well Nos. 1 and 5. Upon completion of the subject well within the Morrow and/or Wolfcamp formations, the applicant shall consult with the supervisor of the Hobbs district office in order to verify that the completion intervals within the Government Nbfd Unit Well No. 1 are in conformance with the above requirement.

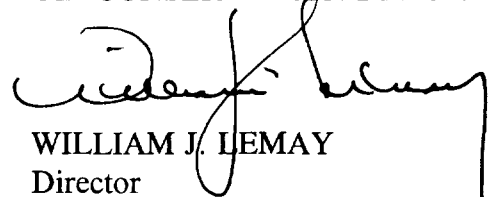
(8) The applicant shall consult with Division and Taxation & Revenue Department ONGARD personnel in order to verify that the proposed Government Nbfd Unit Well No. 1 is set up within the ONGARD system in a manner which will ensure that revenue proceeds from the well are properly attributed and dispersed in accordance with the "equity unit" agreement.

(9) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director