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May 29, 1996

Via Hand Delivery

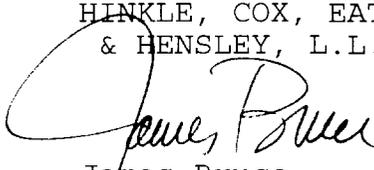
David Catanach
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico

Dear Mr. Catanach:

Enclosed is the proposed order of UMC Petroleum Corporation regarding Case No. 11514 (Application of Read & Stevens, Inc.).

Very truly yours,

HINKLE, COX, EATON, COFFIELD
& HENSLEY, L.L.P.


James Bruce

cc: Ernest L. Padilla (w/encl.)
William F. Carr (w/encl.)
Bret Jameson (w/encl.)

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:

APPLICATION OF READ & STEVENS, INC.
FOR AN UNORTHODOX INFILL GAS WELL
LOCATION AND SIMULTANEOUS DEDICATION,
CHAVES COUNTY, NEW MEXICO.

Case No. 11514
Order No. R- _____

ORDER OF THE DIVISION
(Proposed by UMC Petroleum Corporation)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1996, at Santa Fe, New Mexico, before Examiner David Catanach.

NOW, on this ____ day of May, 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) Applicant Read & Stevens, Inc. seeks approval of an unorthodox infill gas well location in the Buffalo Valley-Pennsylvanian (Prorated) Gas Pool for a well to be drilled 990 feet from the South line and 1980 feet from the West line (Unit O) of Section 26, Township 15 South, Range 27 East. Said well is to be simultaneously dedicated with the existing Harris Federal Well No. 4, located at a standard gas well location in Unit P of said Section 26, to a standard 320-acre gas spacing and proration unit comprising the S½ of said Section 26.

(3) Applicant also operates the Harris Federal Well No. 8, located in Unit F of Section 26. The N½ of Section 26 is dedicated to said well.

(4) Matador Petroleum Company, an offset operator, appeared at the hearing in support of the Application.

(5) UMC Petroleum Corporation ("UMC"), operator of the following producing Morrow gas wells in Township 15 South, Range 27

East, appeared at the hearing and presented evidence in opposition to applicant's request:

(a) White State Well No. 1, located 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 35. The S½ of Section 35 is dedicated to the well; and

(b) White State Well No. 2, located 1980 feet from the North and West lines (Unit F) of Section 35. The N½ of Section 35 is dedicated to the well.

(6) Applicant's wells are located within the Buffalo Valley-Pennsylvanian Gas Pool. Special pool rules for said Pool provide for 320 acre spacing and require wells to be within the NW¼ or SE¼ of a section. The Pool is prorated, with a current monthly allowable of 33,000 MCF of gas.

(7) UMC's wells are within the Diamond Mound-Morrow Gas Pool, which is subject to statewide rules. However, UMC's wells are located in the NW¼ and SE¼ of Section 35, just as applicant's existing wells are in the NW¼ and SE¼ of its section.

(8) Applicant's and UMC's four wells in Sections 26 and 35 produce from the same stratigraphic Morrow interval. Their current producing rates and cumulative production are as follows:

<u>Operator</u>	<u>Well</u>	<u>Producing Rate (MCFPD)</u>	<u>Cumulative Production (MMCF)</u>
Read & Stevens, Inc.	Harris Fed. #8	1,049	5,576
Read & Stevens, Inc.	Harris Fed. #4	27	585
UMC Petroleum Corp.	White St. #1	381	3,671
UMC Petroleum Corp.	White St. #2	694	5,573

(9) The proposed well will produce from the same Morrow interval as the above four wells, and applicant estimates its initial producing rate will be 1500 MCFPD. Based on producing rates, such a well would give applicant a substantial advantage over UMC.

(10) Applicant's proposed well will be located midway between the Harris Federal Well No. 8 and the White State Well No. 2. The parties engineering experts testified that ultimate drainage from these wells is as follows:

	<u>Harris Fed. #8</u>	<u>White St. #2</u>
Read & Stevens, Inc.	347 acres	404 acres
UMC Petroleum Corp.	360 acres	420 acres

(11) The producing Morrow interval is a channel sand which is oriented in a north-south direction.

(12) Drainage in the reservoir will not be radial, but will be along the trend of the Morrow channel in an oblong manner.

(13) Bottom hole pressures in the producing Morrow interval have declined from a virgin pressure of 3300-3500 psi to 1000-1300 psi in 1992, evidencing substantial depletion of the reservoir.

OPTION A:

(i) Based upon drainage patterns, all Morrow reserves in Sections 26 and 35 will be recovered by existing wells.

(ii) Permission to drill the infill well should be denied.

OPTION B:

(i) Approximately 94 acres in the S½ of Section 26 will not be drained by existing wells, and thus the application should be approved.

(ii) Unless production from the proposed well is restricted, UMC will lose in excess of 1.4 BCF of reserves.

(iii) UMC proposed an allowable of 350 MCFPD, or one-half of the producing rate of its White State Well No. 2, based on the distances from the common lease line of the proposed well and UMC's White State Well No. 2. Based on an undrained area of 94 acres in the S½ of Section 26, an allowable of $94/320 \times 33,000/30 = 323$ MCFPD can be calculated.

(iv) In order to protect correlative rights, the proposed allowable should be adopted.

IT IS THEREFORE ORDERED THAT:

OPTION A:

(1) The Application of Read & Stevens, Inc. for approval of an unorthodox infill gas well location in the Buffalo Valley-Pennsylvanian (Prorated) Gas Pool for a well to be drilled 990 feet from the South line and 1980 feet from the West line (Unit O) of Section 26, Township 15 South, Range 27 East, to be simultaneously dedicated with the existing Harris Federal Well No. 4, located at a standard gas well location in Unit P of said Section 26, to a standard 320-acre spacing and proration unit comprising the S½ of said Section 26, is hereby **denied**.

(2) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

OPTION B:

(1) The applicant, Read & Stevens, Inc., is hereby authorized to drill an unorthodox infill gas well location in the Buffalo Valley-Pennsylvanian (Prorated) Gas Pool for a well to be drilled 990 feet from the South line and 1980 feet from the West line (Unit O) of Section 26, Township 15 South, Range 27 East.

(2) The well will be simultaneously dedicated with the existing Harris Federal Well No. 4, located at a standard gas well location in Unit P of said Section 26, to a standard 320-acre gas spacing and proration unit comprising the S½ of said Section 26.

(3) A production penalty shall be applied against the unit comprising the S½ of Section 26. The unit shall be allowed to produce 350 MCFPD out of either or both wells.

(4) 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

William J. Lemay
Director