

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. 11564
Order No. R-10640

APPLICATION OF NEARBURG EXPLORATION
COMPANY FOR AN UNORTHODOX GAS WELL
LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

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

NOW, on this 13th day of August, 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, Nearburg Exploration Company, seeks authority to drill its Black River "3" Federal Well No. 1 at an unorthodox gas well location 1330 feet from the South line and 1650 feet from the West line (Unit K) of Section 3, Township 24 South, Range 26 East, NMPM, to test the Morrow formation, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico.

(3) The applicant proposes to dedicate the W/2 of Section 3 to the proposed Black River "3" Federal Well No. 1 thereby forming a standard 320-acre gas spacing and proration unit for said pool.

(4) The subject well is located within the South Carlsbad-Morrow Gas Pool which is currently governed by the General Rules and Regulations for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the South Carlsbad-Morrow Gas Pool as promulgated by Division Order No. R-8170, as amended, which require standard 320-acre gas spacing and proration units with wells to be located no closer than 1980 feet from the end boundary nor closer than 660 feet from the side boundary of the

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proration unit, nor closer than 330 feet from any quarter-quarter section line or subdivision inner boundary.

(5) Although currently classified as a "Prorated Gas Pool", gas proration was suspended in the South Carlsbad-Morrow Gas Pool by Oil Conservation Commission Order No. R-10328, issued in Case No. 11211 on March 27, 1995, due to the fact that there are currently no "prorated wells" in the pool.

(6) Mallon Oil Company, an affected offset operator in Section 10, Township 24 South, Range 26 East, appeared through legal counsel at the hearing.

(7) The geologic evidence and testimony presented by the applicant in support of its proposed unorthodox gas well location indicates that:

a) the primary and secondary objectives within the Black River "3" Federal Well No. 1 are the Early Middle Morrow and Late Middle Morrow intervals, respectively;

b) a well drilled at the proposed unorthodox gas well location should encounter a greater amount of net sand in both the Early and Late Middle Morrow sand intervals than a well drilled at a standard gas well location thereon, thereby increasing the likelihood of obtaining commercial gas production; and,

c) a well drilled at a standard gas well location within the SW/4 of Section 3 will be located in close proximity to the gas-water contact within the Early Middle Morrow interval, thereby increasing the risk of encountering water production in this reservoir.

(8) Based upon the geologic evidence and testimony presented, the applicant should be authorized to drill its Black River "3" Federal Well No. 1 at the proposed unorthodox location.

(9) The applicant and Mallon Oil Company presented as evidence in this case a stipulated penalty agreement which states that Mallon Oil Company will withdraw any protest to the proposed unorthodox gas well location provided the Black River "3" Federal Well No. 1 is assessed a production penalty of 20.6 percent (79.4 percent allowable).

(10) The stipulated penalty agreement, executed by both parties, is necessary in order to protect the correlative rights of Mallon Oil Company

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from any advantage applicant gains as a result of drilling the Black River "3" Federal Well No. 1 at the proposed unorthodox location.

(11) The proposed production penalty is fair, reasonable and should be adopted.

(12) Approval of the subject application with a 20.6 percent production penalty will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pool, 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 prevent waste and protect correlative rights.

(13) The production penalty should be applied towards the Black River "3" Federal Well No. 1's ability to produce into a pipeline as determined from a deliverability test to be conducted on the well on a semi-annual basis.

(14) The applicant should advise the supervisor of the Artesia district office of the Division of the date and time of conductance of the above-described production test(s) in order that they may be witnessed.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Nearburg Exploration Company, is hereby authorized to drill its Black River "3" Federal Well No. 1 at an unorthodox gas well location 1330 feet from the South line and 1650 feet from the West line (Unit K) of Section 3, Township 24 South, Range 26 East, NMPM, to test the Morrow formation, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico.

(2) The W/2 of Section 3 shall be dedicated to the proposed Black River "3" Federal Well No. 1 thereby forming a standard 320-acre gas spacing and proration unit for said pool.

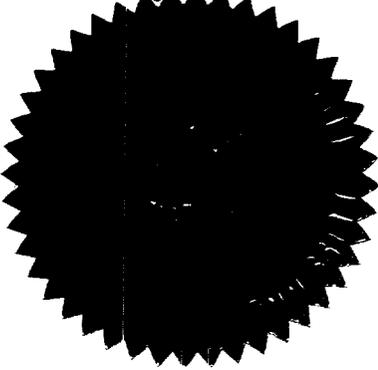
(3) The Black River "3" Federal Well No. 1 is hereby assessed a production penalty of 20.6 percent (79.4 percent allowable). The production penalty shall be applied towards the well's ability to produce into a pipeline as determined from a deliverability test to be conducted on the well on a semi-annual basis.

(4) The applicant shall advise the supervisor of the Artesia district office of the Division of the date and time of conductance of the above-described production test(s) in order that they may be witnessed.

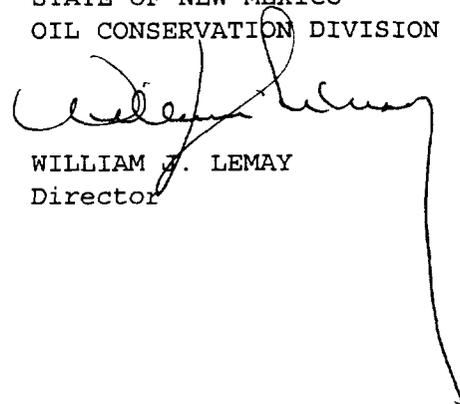
(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director