

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. 11568
ORDER NO. R-10649

**APPLICATION OF MARATHON OIL 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 11, 1996, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 15th 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, Marathon Oil Company ("Marathon"), seeks approval to drill its proposed North Indian Basin Unit Well No. 30 to test both the Indian Basin-Upper Pennsylvanian Gas and Indian Basin-Upper Morrow Gas Pools at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 10, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.

(3) All of said Section 10 lay within the pool boundaries of both the Indian Basin-Upper Pennsylvanian Gas and Indian Basin-Upper Morrow Gas Pools which are currently governed as follows:

(a) by Division Order No. R-8170, as amended, the Indian Basin-Upper Pennsylvanian Gas Pool is subject to the "*General Rules For The Prorated Gas Pools*

of New Mexico/Special Rules and Regulations For The Indian Basin-Upper Pennsylvanian Gas Pool", which provides for: (i) gas production allocation; (ii) 640-acre standard gas spacing and proration units; and, (iii) requires that wells be located no closer than 1650 feet from the outer boundary of the section nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary; and,

(b) by Division Order No. R-8170-O-1/R-2441-B, issued in Case 11512 and dated July 31, 1996, as amended by Nunc Pro Tunc Order No. R-8170-O-2/R-2441-C, the Indian Basin-Morrow Gas Pool is subject to the "*Special Rules and Regulations For The Indian Basin-Morrow Gas Pool*", which orders ceased the prorationing of gas production and provided for: (i) 640-acre standard gas spacing and proration units; (ii) the infill drilling of a second well within an existing 640-acre gas spacing and proration unit; and, (iii) requires that wells be located no closer than 660 feet from the outer boundary of the proration unit nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary.

(4) The subject well location within the Morrow interval is considered to be standard pursuant to said Order Nos. R-8170-O-1/R-2441-B and R-8170-O-2/R-2441-C and any further consideration of this application concerning the Indian Basin-Morrow Gas Pool should be dismissed.

(5) Within the Indian Basin-Upper Pennsylvanian Gas Pool all of said Section 10, being a standard 640-acre gas spacing and proration unit, is currently dedicated to Marathon's North Indian Basin Unit Well No. 1, located at an unorthodox gas well location previously "grandfathered" under the provisions of previous orders governing the Indian Basin-Upper Pennsylvanian Gas Pool (see Division Order No. R-2440, as amended and Division Order No. R-2569, dated September 25, 1963) and as was often the practice in the

early 1960's approval of a Unit Agreement (see Division Order No. R-2456, dated March 27, 1963) 660 feet from the South and West lines (Unit M) of said Section 10. Therefore the proposed North Indian Basin Unit Well No. 30 is to be an "infill gas well" within the existing 640-acre gas spacing and proration unit. Because the Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool where proration units are assigned allowables and wells producing thereon are allowed to produce the unit's assigned allowable in any proportion, infill drilling is an accepted practice and is therefore exempt from the provisions of Division General Rule 104.E.

(6) Within Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, the Upper Pennsylvanian hydrocarbon producing interval includes the subject Indian Basin-Upper Pennsylvanian Gas Pool, which includes:

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|-----|-------------------------|-----------|
| (a) | Sections 3 and 4: | All |
| | Sections 8 through 10: | All |
| | Sections 15 through 30: | All |
| | Sections 32 through 36: | All; and, |

the South Dagger Draw-Upper Pennsylvanian Associated Pool, which includes:

- | | | |
|-----|---------------------|------|
| (b) | Sections 1 and 2: | All |
| | Sections 11 and 12: | All |
| | Section 14: | All. |

(7) Currently the South Dagger Draw-Upper Pennsylvanian Associated Pool is subject to the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico/Special Rules and Regulations for the South Dagger Draw-Upper Pennsylvanian Associated Pool*", as promulgated by Division Order Nos. R-5353, R-5353-A, R-5353-L, R-5353-L-1, R-10050, and R-10050-A which provides for 320-acre spacing and proration units with the option for multiple oil wells and multiple gas wells and allows for the simultaneous dedication of both oil and gas wells to the same 320-acre unit, further each 320-acre unit is allowed to produce up to but not in excess of 1,400 barrels of oil per day and the current corresponding maximum gas allowable provides for 9,800 MCF of gas per day for each 320-acre unit (GOR of 7,000 to one times the top oil allowable of 1,400 BOPD which equals 9,800 MCFPD).

(8) In Section 11, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico, which is immediately east of said Section 10, the South Dagger Draw-Upper Pennsylvanian Associated Pool is currently being developed by Marathon with seven wells, one of which is located at a standard South Dagger Draw well location within the NW/4 NW/4 (Unit D) of said Section 11.

(9) Geological evidence presented by Marathon indicates that the oil productive interval of the Upper Pennsylvanian formation extends into said Section 10 and with the proposed North Indian Basin Unit Well No. 30 Marathon is attempting to intersect this oil productive interval at a more favorable location than a well drilled at the closest standard gas well location allowed by the Indian Basin-Upper Pennsylvanian Gas Pool rules, but with a location that can be considered standard for the offsetting South Dagger Draw-Upper Pennsylvanian Associated Pool.

(10) Both Sections 10 and 11 are within Marathon's North Indian Basin Unit area which should assure adequate protection of correlative rights between the two sections.

(11) No interested party appeared at the hearing in objection to the subject application.

(12) Approval of this application will afford the applicant the opportunity to produce its just and equitable share of hydrocarbons within the Upper Pennsylvanian hydrocarbon producing interval, 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 serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

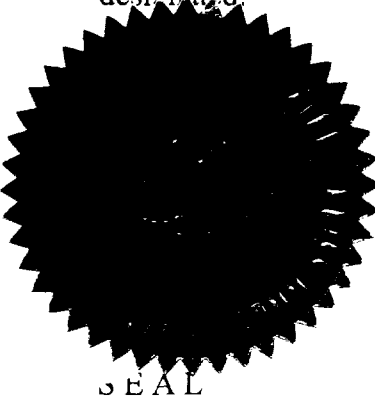
(1) The application of Marathon Oil Company for an unorthodox gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool is hereby approved for its North Indian Basin Unit Well No. 30 to be drilled 660 feet from the North and East lines (Unit A) of Section 10, Township 21 South, Range 23 East, NMPM, Eddy County, New Mexico.

(2) All of said Section 10, being a standard 640-acre gas spacing and proration unit for the Indian Basin-Upper Pennsylvanian Gas Pool, shall be simultaneously dedicated to its proposed North Indian Basin Unit Well No. 30 and to the existing North Indian Basin Unit Well No. 1, located at an unorthodox gas well location 660 feet from the South and West lines (Unit M) of said Section 10.

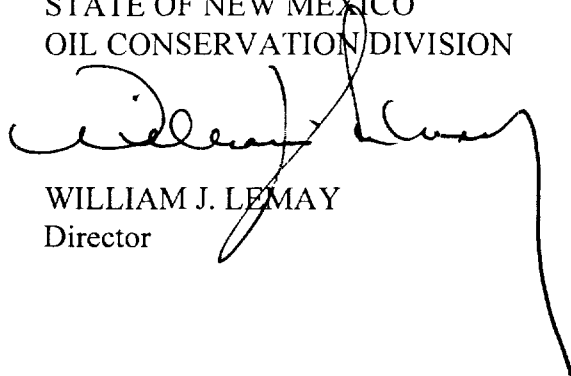
(3) That portion of the subject application for an unorthodox gas well location within the Indian Basin-Morrow Gas Pool should be dismissed.

(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

A handwritten signature in black ink, appearing to read 'William J. Lemay', written over the typed name and title.

WILLIAM J. LEMAY
Director