

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. 11675
Order No. R-10735

APPLICATION OF MANZANO OIL CORPORATION
FOR POOL CREATION AND SPECIAL POOL
RULES, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 19, 1996, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 13th day of January, 1997, 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) Division Case Nos. 11674 and 11675 were consolidated at the time of the hearing for the purpose of testimony.

(3) The applicant, Manzano Oil Corporation, seeks the creation of a new pool for the production of oil from the Wolfcamp formation comprising the S/2 NE/4 and N/2 SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, and the promulgation of special rules and regulations therefor including a provision for 80-acre spacing and proration units and designated well location requirements.

BEFORE THE
OIL CONSERVATION DIVISION
Santa Fe, New Mexico

Case No. 11675 (Reopened) Exhibit No. 2

Submitted by: Manzano Oil Corporation

Hearing Date: August 21, 1997

(4) The evidence presented indicates that the applicant has recently drilled its "SV" Double Eagle Well No. 1 at a previously approved unorthodox location (approved by Division Order No. R-10708) 1500 feet from the North line and 2148 feet from the East line (Unit G) of Section 11, and its "SV" Chipshot Well No. 1 at a previously approved unorthodox location (approved by Division Order No. R-10602) 2164 feet from the South line and 1362 feet from the West line (Unit K) of Section 11. The "SV" Chipshot Well No. 1 has been completed in the Wolfcamp formation through perforations from 10,578 feet to 10,590 feet at an initial producing rate of approximately 253 barrels of oil per day and 363 MCF gas per day. The "SV" Double Eagle Well No. 1 has been tested in the Strawn formation and, as of the date of the hearing, applicant was recompleting this well to the Wolfcamp formation.

(5) Division records indicate that there are several Wolfcamp pools within this general area, namely the Northeast Lovington-Wolfcamp, Lovington-Wolfcamp, North Shoe Bar-Wolfcamp, South Shoe Bar-Wolfcamp and Dean Permo-Pennsylvanian Pools.

(6) The "SV" Double Eagle Well No. 1 is located within one mile of the Northeast Lovington-Wolfcamp Pool which is currently governed by Division General Rule No. 104.C. which requires standard 40-acre spacing and proration units with wells to be located no closer than 330 feet from the outer boundary of the proration unit. The remaining Wolfcamp pools in this area are located approximately two or more miles from the subject wells.

(7) The Lovington Wolfcamp, North Shoe Bar-Wolfcamp, South Shoe Bar-Wolfcamp and Dean Permo-Pennsylvanian Pools are currently spaced on 40 acres, 160 acres, 40 acres and 80 acres, respectively.

(8) The geologic evidence presented by the applicant indicates that the "SV" Chipshot Well No. 1 and the "SV" Double Eagle Well No. 1 have discovered a separate and distinct Wolfcamp reservoir in Section 11. This Wolfcamp reservoir is structurally isolated from the Northeast Lovington-Wolfcamp Pool.

(9) The preliminary engineering evidence presented by the applicant indicates that the "SV" Chipshot Well No. 1 should be capable of draining an area in excess of 80 acres.

(10) Applicant testified that it plans to drill a north offset to the "SV" Chipshot Well No. 1 in the near future.

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

(12) In order to 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, prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 80-acre spacing units should be promulgated for the proposed pool.

(13) The temporary special rules and regulations should provide for designated well locations such that a well should be located within 150 feet of the center of a governmental quarter-quarter section or lot in order to assure the orderly development of the pool and protect correlative rights.

(14) Applicant testified that the data necessary to promulgate permanent rules for the proposed Wolfcamp pool should be available within six months from the data of this order.

(15) At the request of the applicant, temporary special rules and regulations for the proposed pool should be established for a period of six months in order to allow the operators in the subject pool the opportunity to gather sufficient reservoir information to show that an 80-acre proration unit in this pool can be efficiently and economically drained and developed by one well.

(16) Pursuant to Division General Rule Nos. 505.A. and 506.A., the subject pool should be assigned a depth bracket allowable of 400 barrels of oil per day at a limiting gas-oil ratio of 2,000 cubic feet of gas per barrel of oil.

(17) Pursuant to Division nomenclature procedures, a new pool classified as an oil pool for Wolfcamp production should be created and designated the North-Lovington Wolfcamp Pool, with vertical limits comprising the Wolfcamp formation and horizontal limits comprising the N/2 and SW/4 of Section 11, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico.

(18) This case should be reopened at an examiner hearing in July, 1997, at which time the operators in the subject pool should be prepared to appear and show cause why the Temporary Special Rules and Regulations for the North Lovington-Wolfcamp Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Manzano Oil Corporation, a new pool in Lea County, New Mexico, classified as an oil pool for Wolfcamp production is hereby created and designated the North Lovington-Wolfcamp Pool, with vertical limits comprising the Wolfcamp formation, and horizontal limits comprising the N/2 and SW/4 of Section 11, Township 16 South, Range 36 East, NMPM.

(2) Temporary Special Rules and Regulations for the North Lovington-Wolfcamp Pool are hereby promulgated as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
NORTH LOVINGTON-WOLFCAMP POOL**

RULE 1. Each well completed in or recompleted in the North Lovington-Wolfcamp Pool or in the Wolfcamp formation within one mile thereof, and not nearer to or within the limits of another designated Wolfcamp oil pool shall be spaced, drilled, operated, and produced in accordance with the Special Rules hereinafter set forth.

RULE 2. Each well completed or recompleted in the North Lovington-Wolfcamp Pool shall be located on a unit containing 80 acres, more or less, which consists of the N/2, S/2, E/2 or W/2 of a single governmental quarter section.

RULE 3. The Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without hearing when an application has been filed for a non-standard unit consisting of less than 80 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Lands Survey. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 5. The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to a deeper horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. The allowable for a standard proration unit (79 through 81 acres) shall be based on a depth bracket allowable of 400 barrels of oil per day, and in the event there is more than one well on an 80-acre proration unit, the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

IT IS FURTHER ORDERED THAT:

(3) The location of all wells presently drilling to or completed in the North Lovington-Wolfcamp Pool or in the Wolfcamp formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well within 30 days from the date of this order.

(4) Pursuant to Paragraph A of Section 70-2-18, N.M.S.A. 1978 Comp., contained in Laws of 1969, Chapter 271, existing oil wells in the North Lovington-Wolfcamp Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

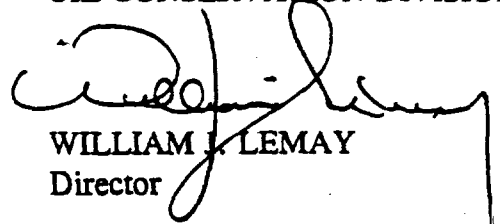
Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable until a non-standard spacing unit has been approved and, subject to said 60-day limitation, each well presently drilling to or completed in the North Lovington-Wolfcamp Pool or in its corresponding vertical limits as described in Ordering Paragraph No. (1) above, or within one mile thereof, shall receive no more than one-fourth of a standard allowable for said pool.

(5) This case shall be reopened at an examiner hearing in July, 1997, at which time the operators in the subject pool shall appear and show cause why the Temporary Special Rules and Regulations for the North Lovington-Wolfcamp Pool promulgated herein should not be rescinded.

(6) 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

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