

JAMES BRUCE

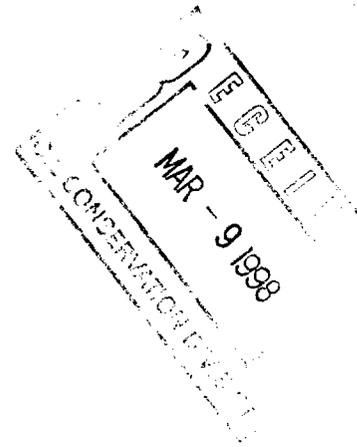
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

SUITE B
612 OLD SANTA FE TRAIL
SANTA FE, NEW MEXICO 87501

(505) 982-2043
(505) 982-2151 (FAX)

March 9, 1998



Hand Delivered

Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case No. 11,925 (Application of KCS Medallion Resources,
Inc. for an unorthodox gas well location)

Dear Mr. Stogner:

Enclosed is KCS Medallion's proposed order in the above case.

Very truly yours,


James Bruce

Attorney for KCS Medallion
Resources, Inc.

cc: Paul A. Cooter (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 KCS MEDALLION
RESOURCES, INC. FOR AN UNORTHODOX
GAS WELL LOCATION, EDDY COUNTY,
NEW MEXICO.

Case No. 11,925
Order No. R-_____

ORDER OF THE DIVISION
(Proposed by KCS Medallion Resources, Inc.)

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on February 19, 1998 at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of March, 1998, 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 hereof.

(2) The applicant, KCS Medallion Resources, Inc., seeks authority to drill its PDM Well No. 1 at an unorthodox gas well location 860 feet from the South line and 660 feet from the West line (Unit M) of Section 16, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico, to test the Morrow formation. The S½ of Section 16 will be dedicated to the subject well, forming a standard 320-acre gas spacing and proration unit.

(3) Southwest Royalties, Inc. ("Southwest"), an offset operator to the west of the proposed location, appeared at the hearing in opposition to the application.

(4) The proposed well is located in the Turkey Track-Morrow Gas Pool. The pool is governed by Rule 104.C.(1) of the Division's General Rules and Regulations, which requires standard 320-acre gas spacing and proration units, with wells no closer than 1650 feet to the end boundary and 660 feet to the side boundary of the unit, nor closer than 330 feet to a quarter-quarter section line.

MAR 9 1998
OIL CONSERVATION DIVISION

(5) The proposed well is located 990 feet closer to the end boundary of the unit than allowed by Division rules.

(6) The applicant presented the following geologic and engineering evidence:

(a) The primary zone of interest is the Middle Morrow, which is a channel sand trending north-south in this area. The applicant separates the Middle Morrow into the A, B, and C sands. The Morrow sands are lenticular, and are not continuous over long distances.

(b) In order to be commercial, a well needs to encounter at least two of the three Middle Morrow sands with an approximate 10-15 feet of net sand thickness. A well at an orthodox location will encounter less than 10 feet in each Middle Morrow sand.

(c) There are six key Middle Morrow wells producing in the immediate area of the proposed well:

<u>Well</u>	<u>Location</u>	<u>Cumulative Production</u>
St. IGA Com. No. 1	Unit O §16	0.325 BCF
S.R. St. Com. No. 1	Unit F §16	1.5 BCF
Parkway 17 St. Com. No. 1	Unit G §17	2.0 BCF
Union "TX" St. Com. No. 1	Unit N §17	5.2 BCF
Parkway West Unit No. 4	Unit C §20	Dry
Parkway West Unit No. 9	Unit G §21	Dry

The wells in Section 17 have produced over a period of 14-24 years.

(d) The applicant desires to move away from the non-commercial well in the SE¼ of Section 16. In addition, the proposed location moves away from the well in the NE¼ of Section 21, which encountered substantial sand thickness, but had low permeability and was non-commercial. The proposed location also moves away from the area drained by the well in the NW¼ of Section 16.

(e) The applicant hopes to recover about 1.5 BCF of gas from its well, although the S½ of Section 16 has been partially drained by the offsetting wells.

(f) The Morrow pinches out immediately to the west of Southwest's well in the SW¼ of Section 17. Southwest's well does not drain from the south because of the dry hole immediately to its south, and faces drainage competition from the north and northeast. As a result, most of the reserves being drained by Southwest's well are being drained from the east, including the SW¼ of Section 16.

(7) Southwest requested that the proposed location be denied. However, its engineer testified that:

(a) Southwest's well in Unit N of Section 17 had a pressure of 3339 psi, and ten years later the well in Unit G of Section 17 had a pressure of 2232, evidencing substantial pressure depletion in the area of the proposed well.

(b) The SW $\frac{1}{4}$ of Section 16 has been pressure depleted due to production from existing wells in Sections 16 and 17.

(c) Well interference in this Morrow pool has occurred from wells located 1 $\frac{1}{2}$ miles apart, as evidenced by wells located in the SW $\frac{1}{4}$ of Section 20 and the SE $\frac{1}{4}$ of Section 21.

(8) The evidence and testimony in this case indicates that unless a well is drilled at an unorthodox location in the S $\frac{1}{2}$ of Section 16, the reserves thereunder will be produced by existing wells, and the interest owners therein will not have the opportunity to produce their fair share of reserves in the reservoir.

(9) Approval of the proposed unorthodox location will afford the applicant the opportunity to produce its just and equitable share of oil and gas from the subject pool, will prevent 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 prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, KCS Medallion Resources, Inc., is hereby authorized to drill its PDM Well No. 1 at an unorthodox gas well location 860 feet from the South line and 660 feet from the West line of Section 16, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico, to test the Morrow formation (Turkey Track-Morrow Gas Pool).

(2) The S $\frac{1}{2}$ of Section 16 shall be dedicated to the well, forming a standard 320-acre gas spacing and proration unit for said pool.

(3) 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

LORI WROTENBERY
Director