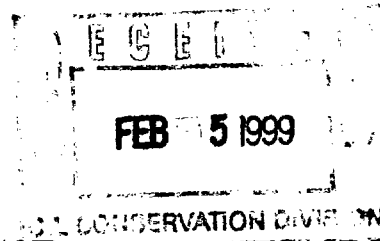


**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

APPLICATION OF MATADOR PETROLEUM CORPORATION FOR APPROVAL OF AN UNORTHODOX GAS WELL LOCATION AND TO AMEND ORDER NO. R-10872-B TO APPROVE A STANDARD 600.01 ACRE GAS SPACING AND PRORATION UNIT EDDY COUNTY, NEW MEXICO.

CASE NO. 12034



APPLICATION OF TEXACO EXPLORATION AND PRODUCTION INC FOR COMPULSORY POOLING, AN UNORTHODOX GAS WELL LOCATION AND A NON-STANDARD SPACING AND PRORATION UNIT, EDDY COUNTY, NEW MEXICO.

CASE NO. 12051

APPLICATION OF TEXACO EXPLORATION AND PRODUCTION, INC. FOR COMPULSORY POOLING, AN UNORTHODOX GAS WELL LOCATION AND A NON-STANDARD SPACING AND PRORATION UNIT EDDY COUNTY, NEW MEXICO.

CASE NO. 12105

ORDER R-10872-C

**MATADOR PETROLEUM CORPORATION'S
PROPOSED
ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 3, 1998, before Examiner Michael E. Stogner.

NOW, on this ____ day of January, 1999, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

Cases, Appearances and Notice

(1) The following cases were consolidated for hearing before and decision by the Division:

(a) Case 12034: Application of Matador Petroleum Corporation ("Matador") to amend Order R-10872-B to provide for an unorthodox well location 2080 feet from the South line and 750 feet from the West line ("the Fasken location") of Irregular Section 1, T21S, R25E including approval of a standard 600.01-acre unit comprising the southern two-thirds of Irregular Section 1 described as Lots 11 through 14, 25 through 32 and the SW/4 (southern two-thirds equivalent), Eddy County, New Mexico.

(b) Case 12051: Application of Texaco Exploration and Production, Inc. ("Texaco") for compulsory pooling and an unorthodox well location 3200 feet from the North line and 660 feet from the West line ("the Texaco location") of Irregular Section 1, T21S, R25E including approval of a non-standard 555.74-acre unit comprising the northern two-thirds of Irregular Section 1 described as Lots 11 through 14, 17 through 28 and SW/4 (northern two-thirds equivalent), Eddy County, New Mexico.

(c) Case 12105: Application of Texaco Exploration and Production, Inc. ("Texaco") for compulsory pooling and an unorthodox well location 3200 feet from the North line and 660 feet from the West line ("the Texaco location") of Irregular Section 1, T21S, R25E including approval of a non-standard 853.62-acre unit comprising all of Irregular Section 1, Eddy County, New Mexico.

(2) Adequate notice of these proceedings has been provided and the only parties appearing of record are as follows:

Matador Petroleum Corporation
Mewbourne Oil Company
Penwell Energy Inc.
Texaco Exploration and Production, Inc.

(3) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

Background

(4) Irregular Section 1 consists of 853.62 acres and is divided into thirds with the "middle third" of this section being a formerly "unleased" federal oil and gas minerals the surface of which was subject to a federal environmental study.

(5) On April 3, 1997 and May 1, 1997, the Division heard (a) Case 11723 in which Mewbourne Oil Company ("Mewbourne") requested approval of a 297.88 acre non-standard gas spacing unit (southern one-third of this section) for its well proposed to be drilled at an unorthodox well location 660 feet from the South line and 2310 feet from the East line of this section; and (b) Case 11755 in which Fasken Oil and Ranch, Ltd. ("Fasken") requested approval of a 297.88 acre non-standard gas spacing unit (southern one-third of this section) for its well proposed to be drilled at an unorthodox well location 2080 feet from the South line and 750 feet from the West line of this section.

(6) On September 12, 1997, the Division entered Order R-10872 which approved the Fasken application, denied the Mewbourne location and approved the formation of a 297.88 acre non-standard gas spacing and proration unit (consisting of the southern third of this Section) "because a full sized, as nearly as possible, standard shaped 640-acre spacing and proration unit cannot be formed within this irregularly shaped section since the needed acreage will not be offered by the U.S. Bureau of Land Management for mineral leasing;"

(7) In addition, Order R-10872 included the following finding:

"(10) Section 1 of Township 21 South, Range 25 East, NMPM, Eddy County, New Mexico comprises a total area of 853.62 acres consisting of a row of six lots and/or quarter-quarter sections being a legal governmental subdivision therein....A spacing and proration unit for either the requested well locations that would be considered "standard" pursuant to the rules and regulations governing the Catclaw Draw-Morrow Gas Pool would need to incorporate the Lots 11, 12, 13, 14, 25, 26, 27, 28, 29, 30, 31 and 32 and the SW/4 of said Section 1. Even though this area comprises a total of 600.01 acres said area would satisfy the Division's requirements for the formations as near as possible of a standard sized and shaped drilling tract. Also, the oil and gas mineral rights underlying this 600.01 acre drilling tract is under the jurisdiction of the United States government. HOWEVER, the 302.13 acre area that comprises Lots 11,12,13,14,15,16,17 and 28 of said Section 1 is currently an unleased federal tract that is under additional wildlife restrictions that makes the leasing of this particular area from the U.S. Bureau of Land Management impossible at this time."

(8) Fasken is the operator of the S/2 equivalent of Irregular Section 1 as a result of a Joint Operating Agreement, AAPL-1956 Model Form, dated April 1, 1970 which includes Mewbourne, Matador, Devon Energy Corporation as non-operators.

(9) South of Section 1 is Section 12 which Texaco operates as a 632.36 acre gas spacing and proration unit within the Catclaw Draw-Morrow Gas Pool which is currently dedicated to the:

(a) E. J. Levers Federal "NCT-1" Well No. 1 (the Levers Well No. 1) located 660 feet from the South line and 1980 feet from the West line of Section 12; and

(b) E. J. Levers Federal "NCT-1" Well No. 2 (the Levers Well No. 2) located 2448 feet from the North line and 1980 feet from the West line of Section 12.

(10) Both well locations are within the current boundary of the Catclaw Draw-Morrow Gas Pool which is subject to the Division's Special Rules and Regulations (Order R-4157-D) which include:

"Rule: 2...shall be located no closer than 1650 feet to the outer boundary of the section nor closer than 330 feet to any governmental quarter-quarter section line."

"Rule 2(B)...The second well drilled on a proration unit shall be located on a quarter section not containing the first well and shall be located not closer than 1650 feet to the outer boundary...."

"Rule 5: A standard gas proration unit...shall be 640-acres."

(11) While the Catclaw Draw-Morrow Gas Pool is still officially "prorated", prorationing has been suspended and the wells in the pool are allowed to produce at capacity.

(12) In December, 1997, the New Mexico Oil Conservation Commission entered Order R-10872-B which clarified that two wells were allowed in a standard unit in this pool, approved the Mewbourne location subject to a 40 % production penalty, denied the Fasken location if the Mewbourne well was actually drilled, and confirmed the Division's approval of this 297.88 acre non-standard proration and spacing unit (southern third of Section 1) and authorized the drilling of the Mewbourne well.

(13) In accordance with Order R-10872-B, Mewbourne drilled and completed its Catclaw Draw Well No. 1 ("the Mewbourne well") and is the current Division designated operator for the existing 297.88-acre non-standard spacing and proration unit.

(14) In July, 1998, the U. S. Bureau of Land Management changed its practice concerning the leasing of the 302.13 acre area (middle third of Section 1) and approved this tract for sale by listing it in the competitive oil and gas lease sale.

(15) Fasken Land and Minerals, Ltd. was the successful bidder for this lease with the working interest therein now shared among Fasken Land and Minerals, Ltd., Devon Energy Corporation and Matador.

(16) By letter dated July 30, 1998, Texaco proposed its Rocky Arroyo Federal Com Well No. 1 ("the Texaco location") as a Morrow well to be dedicated to a non-standard spacing and proration unit consisting of the northern third and the middle third of Section 1.

(17) On August 12, 1998, Matador filed its application in Case 12034 seeking an amendment to Order R-10872-B so that the Fasken location could now be drilled and to dedicate this middle third of Section 1 to the southern third of Section 1 in order comply with Finding (10) of Order R-10872 by forming a standard spacing and proration unit pursuant to the rules and regulations governing the Catclaw Draw-Morrow Gas Pool.

(18) The Application for Permit to Drill ("APD") the Fasken location has been approved and extended to June 25, 1999.

(19) On August 25, 1998, Texaco's filed its compulsory pooling application based upon its July 30, 1998 well and spacing unit proposal and the application was docketed as Case 12051.

(20) On August 26, 1998, Texaco asked the Division to consolidate its case with the Matador Case and asked that the consolidated cases be heard on September 17, 1998.

(21) On September 1, 1998, Matador concurred in the consolidation and, by agreement of counsel, these cases were continued to October 8, 1998.

(22) On September 9, 1998, at the request of Mewbourne Oil Corporation's attorney and with the concurrence of counsel, these two cases were continued to November 5, 1998.

(23) These cases were set for hearing on December 3, 1998

(24) On Tuesday, November 25, 1998, counsel for Texaco and counsel for Matador exchanged data in preparation for the hearing on December 3, 1998.

(25) On Wednesday, November 25, 1998, Texaco's counsel delivered to Matador's counsel Texaco's amended application which now seeks to continue Texaco's case to December 17, 1998 and to amend Texaco's application to now include its request that the Division enter a compulsory pooling for all of Irregular Section 1 for a well to be drilled by Texaco.

(26) By letter agreement dated December 1, 1998, the working interest owners reached a voluntary agreement for the consolidation of the southern two-thirds of this section and for the drilling of the Fasken location.

(27) On December 3, 1998, Matador presented its evidence and witnesses and the case was continued to the hearing scheduled for January 7, 1999 at which Texaco was to present its evidence and witnesses.

(28) On January 7, 1999, Texaco declined to present any evidence or witnesses and requested that the case be taken under advisement based upon the evidence presented on December 3, 1998.

(29) Penwell advised that it would waive objection to the unorthodox well locations.

Geological and petroleum engineering evidence

(30) Matador, relying upon 2-D seismic data, 3-D seismic data and subsurface geological data, presented substantial geologic evidence which demonstrated that:

(a) 3-D seismic data shows a major north/south Morrow cutting fault separates the Fasken location and Texaco wells on the west side of this fault from the Mewbourne well on the east side of this fault. Mewbourne's location is on the down thrown side of this fault.

(b) the Mewbourne well produces from a limited reservoir within a fault block isolated from the Texaco Levers #2 well.

(c) no Morrow sands will communicate or drain across this fault.

(d) the Mewbourne well is at a structural disadvantage in the Morrow because both the Upper and Lower Morrow sands become wet in lower structural positions.

(e) because the Mewbourne well is on the east side of a fault while the Texaco Levers #2 well is on the west side of this fault, the Mewbourne well is not able to complete with the Texaco Levers #2 well which is draining the Middle Morrow reservoir west of the Mewbourne well.

(f) the Upper Morrow sand is productive in structurally high areas like the Fasken location and wet in structurally low areas like the Mewbourne well.

(g) the northern one-third of this section is geologically very speculative.

(h) the greatest percentage of potentially productive acreage in this section is consolidated within a standard spacing unit consisting of the southern two-thirds of this section.

(i) the Fasken location is geologically superior to the Texaco location.

(31) Matador presented pressure data which demonstrated that the Mewbourne well is not in pressure communication with Texaco's Levers Well No 2.

(32) Matador presented production data which demonstrated that the Mewbourne well is draining a limited reservoir and is not able to drain the SW/4 of this section.

(33) Matador concluded that (a) the Texaco Lever's #2 has produced a total of 3.9 BFC of gas and currently produces approximately 3.4 MMCFPD; (b) it is draining the SW/4 of Irregular Section 1; (c) and the Fasken well location must be drilled to protect the SW/4 of this section from further drainage by the Texaco Levers's #2 well.

The Division decision

(34) In order to assure the adequate protection of correlative rights, the prevention of waste and in order to prevent the economic loss caused by the drilling of unnecessary wells, the Division should approve the Matador application and deny the Texaco applications for the following reasons:

(a) that the seismic data available to Matador, allowed Matador to present a more complete and thorough geological evaluation which the Division adopts in this case.

(b) Matador's interpretation of the location of a fault separating the Mewbourne well from the Texaco Levers #2 well is reasonable and thus the Texaco Levers #2 well is draining the Middle Morrow reservoir on the west side of a fault separating the Texaco well from the Mewbourne well.

(c) the Fasken location will provide an opportunity to produce these reserves before they are produced by the Texaco Levers #2 well.

(d) there is no opposition to this unorthodox well location.

The proposed standard gas proration and spacing unit

(35) The formation of this 600.01-acre standard gas spacing and proration unit is a reasonable request because:

(a) a full sized, as nearly as possible, standard shaped 640-acre spacing and proration unit can now be formed within this irregularly shaped section because the needed acreage been offered by the U. S. Bureau of Land Management for mineral leasing.

(b) the formation of the requested 600.01-acre standard gas spacing and proration unit is in the best interest of conservation, and will serve to prevent waste and should be therefore be approved.

(c) a spacing unit comprising the southern two-thirds of this section best conforms to the potentially productive reservoir in the Morrow formation.

Texaco's Requests

(36) Division finds that Case 12105 should be dismissed with prejudice because Texaco filed a compulsory pooling application for a spacing unit consisting of all of this section without first making any "good faith" effort to voluntarily form this spacing unit which is contrary to NMSA 1978, Section 70-2-17(C).

(37) It is the practice and policy of the Division to dismiss compulsory pooling cases which attempt to pool acreage all or part of which has been voluntarily consolidated to form a standard spacing unit.

(38) Division finds that in Case 12051, Texaco filed a compulsory pooling application for a non-standard spacing unit consisting of the northern two-thirds of this section which should be dismissed with prejudice because the owners in the southern two-thirds of this section have agreed to voluntarily pool their interest to form a standard 600.01 acre spacing unit to be dedicated to both the Fasken location and the Mewbourne well.

IT IS THEREFORE ORDERED THAT:

(1) Matador Petroleum Corporation's application in Case 12034 to amend Order R-10872-B is hereby **approved** as follows:

(a) a standard 600.01-acre unit comprising the southern two-thirds of Irregular Section 1 described as Lots 11 through 14, 25 through 32 and the SW/4 (southern two-thirds equivalent), Eddy County, New Mexico is hereby **approved**;

(b) an unorthodox well location 2080 feet from the South line and 750 feet from the West line ("the Fasken location") of Irregular Section 1, T21S, R25E is hereby **approved**;

(c) Fasken Oil & Ranch, Ltd. is hereby approved as the Division designated operator for this spacing unit.

(2) Texaco Exploration and Production, Inc. ("Texaco") application in Case 12051 is hereby **dismissed with prejudice**.

(3) Texaco Exploration and Production, Inc. ("Texaco") application in Case 12105 is hereby **dismissed with prejudice**.

(4) Jurisdiction of this cause is retained for the entry of such further order 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