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OIL CONSERVATION DIV.

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November 9, 1999
(Our File No. 99-1.80)

J.E. GALLEGOS *

VIA HAND-DELIVERY

Lori Wrotenbery, Director
New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: Applications of SDX Resources, Inc. for Simultaneous Dedication of Multiple Infill Wells; Administrative Orders **SD-99-14** and **SD-99-15**

Dear Ms. Wrotenbery:

On behalf of Doyle Hartman, we have been provided this date with your Administrative Orders SD-99-14 and SD-99-15 in which the Division has authorized SDX Resources to drill one addition well and produce three Jalmat gas wells on a 120-acre non-standard proration unit in one case and to drill two additional wells and produce four Jalmat gas wells on a 159.95 acre non-standard proration unit in the other. Doyle Hartman, as an offsetting operator of Jalmat gas wells, had filed protests to these applications.

Both Orders rest on the reference that the Jalmat is a prorated gas pool and "the rules currently governing this pool do not contain provisions restricting the number of producing gas wells within a spacing and proration unit;"

The absence of a controlling and waste preventive standard in the pool rules does not open the doors to the rampant and unbridled dense infill drilling underway by SDX Resources. Rules for the prorated gas pools address such subjects as standard GPUs sizes, well locations and the proration procedures (See Order No. R-8170 and amendments). The law provides the test and the standard for whether additional wells may or not be drilled on a proration unit. NMSA 1978 Section 70-2-17 provides in pertinent part as follows:

- A. The rules, regulations or orders of the division shall, so far as it is practicable to do so, afford to the owner of each property in a pool the opportunity to produce his just and equitable share of the oil or gas, or both, in the pool, being an amount, so far as can be

practically determined, and so far as such can be practicably obtained without waste, substantially in the proration that the quantity of the recoverable oil or gas, or both, under such property bears to the total recoverable oil or gas, or both, in the pool, and for this purpose to use his just and equitable share of the reservoir energy.

- B. The division may establish a proration unit for each pool, such being the area that can be efficiently and economically drained and developed by one well such being the area that can be efficiently and economically drained and developed by one well, and in so doing the division shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells. (Emphasis added).

The practice has been in the past, obviously in recognition of the legislative mandate in the Oil & Gas Act, that where an administrative application for an infill well is the subject of protest by an interested party, the applicant must establish at a hearing that the proration unit cannot be efficiently and economically drained by the existing well or wells and that correlative rights of others are protected while waste is prevented.

The reasoning of the Division underlying these two Orders invites a ruinous "Spindle top" drilling stampede. Hartman has operated in the Jalmat gas pool for twenty-five years (not six months like SDX or Raptor Resources) and his studies and those of an independent expert demonstrate that the subject proration units are being drained efficiently and economically by the existing wells. Of course, the technical data and study means something only if the Division takes into account the requirements of Section 70-2-17, supra. If the silence of the pool rules control over the law, then why have an application for simultaneous dedication? Why have notice to offset operators? Why spend the time and money to issue Administrative Orders? The Division has declared that any operator can *de facto* down-space any prorated pool by completing and producing as many wells on a proration unit as it pleases.

Indeed, it appears that some operators, such as SDX, already understand that a request for simultaneous dedication is a mere formality. The Hobbs District weekly activity report (a copy of the page dated November 5, 1999 is attached) show that the drilling of the Wells Federal No. 22 and 23 were approved October 27, 1999, even

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though the application was not filed at the Division until October 12th and the approval Order SD-99-15 issued yesterday, November 8th.

We urgently request that the Division reconsider the subject Orders; that upon doing so, it vacate the Orders and set the SDX applications for appropriate public hearing. We will appreciate a most prompt reply.

Sincerely,

GALLEGOS LAW FIRM, P.C.

By 
J.E. GALLEGOS

JEG:sa

cc: Rand Carroll, Legal Counsel, NMOCD
Larry Kehoe, Assistant Commissioner, State Land Office
Chuck Morgan, SDX Resources, Inc.
Doyle Hartman

