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April 12, 2000

HAND DELIVERED

Mr. Michael Stogner
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

APR 12 11:43 AM
OIL CONSERVATION DIV

Re: Case No. 12370, Application of Marbob Energy Corporation for approval of an unorthodox well location, Eddy County, New Mexico.

Dear Mr. Stogner:

Enclosed for your consideration in hard copy and on disc is Marbob Energy Corporation's Proposed Order in the above referenced case. The Order addresses the issues which you raised in the April 6, 2000 hearing in this matter.

If you would like additional assistance from Marbob as you consider the proposed Order, please let me know.

Very truly yours,


Paul R. Owen

enc.

cc: Mr. Raye Miller
Marbob Energy Corporation

**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. _____
ORDER NO. R- _____

OIL CONSERVATION DIV.
00 APR 12 AM 11:43

**APPLICATION OF MARBOB ENERGY CORPORATION
FOR AN UNORTHODOX WELL LOCATION, EDDY
COUNTY, NEW MEXICO.**

**MARBOB ENERGY CORPORATION'S
PROPOSED ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on April 6, 2000, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of April, 2000, the Division Director, having considered the testimony, the record, and the recommendation 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, Marbob Energy Corporation ("Marbob"), seeks an exception to Division Rule 104.C.2.a. to permit it to drill its proposed Primero Federal Well #2 at an unorthodox location 2116 feet from the South line and 542 feet from the West line (Unit L) of Section 26, Township 26 South, Range 24 East, South Washington Ranch Morrow Gas Pool, Eddy County, New Mexico. The S/2 of Section 23 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit in for said pool.

(3) The subject well is located in the South Washington Ranch Morrow Gas Pool. Rule 104.C.2.a. of the General Rules and Regulations of the Oil Conservation Division

provides that wells on 320-acre spacing units must be located no closer than 660 feet to the nearest section line. Accordingly, Marbob seeks an exception to Rule 104 C.2.a., to permit the drilling of this well at this unorthodox gas well location.

(4) Marbob originally sought administrative approval of this location. However, following discussions with the Division the application was set for hearing to enable Marbob to present additional evidence and respond to questions concerning the proposed well location. At the April 6, 2000 hearing in this matter, Marbob presented letters by which all "affected parties," as defined by Division Rule 1207A.2., waived objection to the location sought by Marbob in this case.

(5) Notice of this application was provided to all affected working interest owners and no offset operator and/or interest owner appeared at the hearing in opposition to the application.

(6) On August 31, 1999, due to amendments to Division Rule 104.C.(2), the Division expanded the "standard window," or the permissible area in which an operator may drill a well within a 320-acre unit, within the constraints of Division Rule 104.C. Pursuant to the amendments, initial wells on a 320-acre unit may be "located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary." Prior to that date, wells on a 320-acre unit were required to be at least 1650 feet from the outer boundary of the quarter section on which the well is located.

(7) The Division is frequently presented with administrative applications, under Division Rule 104.F.(2), for exception to the well location requirements contained in Division Rule 104.C., and Division Rule 104.B. Prior to the August 31, 1999 amendments to the Division Rules, the Division frequently granted the exceptions sought in such applications.

(8) Division Rule 104.F.(2) allows the Division Director to grant an exception to the well location requirements contained in Division Rule 104.B. and 104.C., "after notice and opportunity for hearing when the exception is necessary to prevent waste or protect correlative rights." By Notice dated October 25, 1999, the Division explained the August 31, 1999 amendments, including the effect of those amendments. That Notice specified that "[s]ince the primary objectives of the rule changes were to grant operators increased flexibility in locating wells and decrease the number of applications for unorthodox locations,

all future location exceptions will require substantial justification, *i.e.*, unusual circumstances.”

(9) Due to the expanded “standard window” established by the amended Division Rule 104, and the corresponding increased flexibility in well location requirements, the Division has and will set for hearing before a Division Hearing Examiner any application for exception to the well location requirements set by Division Rules 104.B. and 104.C., including Marbob’s initial administrative application seeking the well location exception at issue in this case. As with Marbob’s administrative application in this case, such cases shall be set for hearing, whether they are presented to the Division by an administrative application under the provisions of Division Rule 104.F., or by formal application for hearing pursuant to Division Rule 1203.

(10) In considering Marbob’s application in this case, the Division considered the following factors, which should be considered by any operator seeking any exception to the well location requirements in Division Rules 104.B. and 104.C.:

- (a) Whether all locations for the proposed well within the standard window set by Division Rule 104 have been eliminated;
- (b) Whether there is geological justification for the proposed location which necessitates granting the sought exception to Division Rule 104, or, if the proposed location is necessitated by surface features, whether the proposed location is in a geologically inferior position to a location within the standard window;
- (c) If the surface location is necessitated by surface features, then the operator should justify why it cannot directionally drill from the proposed unorthodox surface location to a bottomhole location within the standard window established by Division Rules; and,
- (d) Whether the operator seeking the well location exception contemplates developing shallower zones, and whether the proposed well location is within the standard window for those shallower zones. As the Division’s October 25, 1999 Notice observed, “the well location requirement for oil wells on 40-acre spacing **has not** changed and remains 330 feet from the quarter-quarter section. Operators need to be wary if a well’s main objective is a deeper gas-producing interval but there is

the possibility of oil production and the location is closer to an interior quarter-quarter section line than 330 feet. In order to complete the well in a shallower oil-producing horizon, the operator will be required to obtain an exception for the unorthodox oil well location. Location exceptions in this situation will not be granted unless unusual circumstances justify the location, and the closer a well is to the neighboring property, the harder it will be to obtain an exception. For example, if the well is only 10 feet of a neighboring property, it is highly unlikely that an exception will be granted.”

(11) In support of Marbob’s contention that the well location exception sought by its application in this case was necessary to prevent waste or protect correlative rights, Marbob presented evidence proving the above points:

a. Marbob cannot drill its proposed well within the standard window in the S/2 of Section 23. Marbob presented evidence which indicated that the proposed location is necessitated by the United States Department of the Interior, Bureau of Land Management’s (“BLM”) requirement that the proposed well be located at the subject location. Marbob originally proposed the subject well at a standard location in the S/2 of Section 26. However, the BLM determined that due to the existence of three “special management areas,” sensitive soils, cave karst, and visual, at the standard location, the BLM required that the well be drilled at the location sought by Marbob’s Application in this case. The BLM refuses to allow Marbob to drill a well at any standard well location in the S/2 of Section 23.

b. Although geologic considerations are not the basis for Marbob’s request for a well location exception, Marbob presented geologic evidence which indicated that the Morrow sand which is the primary objective of the proposed well trends north to south under the western half of the acreage to be dedicated to this well. Marbob is the operator of the Primero Federal Well No. 1, is located in the NW/4 of Section 23, 850 feet from the North line and 847 feet from the West line of Section 23. That well is successfully producing from the same sand which is the object of the well at issue in this case. In contrast, Marbob’s Primero White 14 Federal Well No. 1 and Primero White 14A Well No. 2, both located in the SW/4 of Section 14, T26S, R24E, sought the same sand, but were dry holes, and did not discover hydrocarbons capable of production in paying quantities in that acreage. Marbob’s interpretation of the structure of the Morrow formation underlying the acreage to be dedicated to the instant well indicates that the proposed location is not geologically inferior to a location within the standard window in the S/2 of Section 23.

c. Marbob presented evidence which established that directionally drilling this well from the proposed unorthodox surface location to a standard bottom hole location would increase the cost of drilling the well by approximately \$100,000.00. If Marbob did not drill the well, the hydrocarbons underlying the subject location will be wasted.

d. Although Marbob's primary objective for the well which is the subject of this application is the Morrow formation, and although Marbob does not plan to encounter or produce oil from a shallow formation from the subject well, the proposed well location is a standard location for an oil well on 40-acre spacing.

(12) As to the surface features necessitating the well location exception sought in this case, the Division notes that Marbob conducted extensive negotiations with representatives of several divisions of the BLM in an attempt to locate the subject well within the standard window for well locations under Division Rule 104. Several meetings with BLM representatives were conducted on the acreage to be dedicated to the well. Because of the increased flexibility in well location requirements effected by the Division's August 31, 1999 amendments to Division Rule 104, the Division will only grant exceptions to its well location requirements that are supported by "substantial justification, *i.e.*, unusual circumstances." (Division Notice dated October 25, 1999). The Division strongly encourages the BLM and operators to examine all possible locations within a standard window before concluding that the only acceptable location will require an exception to Division Rule 104.

(13) Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pools, will result in the recovery of hydrocarbons that would otherwise be left in the ground and wasted, and will otherwise be in the best interest of conservation and the protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Marbob Energy Corporation for an exception to Division Rule 104.C.2.a., to permit Marbob to drill its proposed Primero Federal Well #2 at an unorthodox location 2116 feet from the South line and 542 feet from the West line (Unit L) of Section 23, Township 26 South, Range 24 East, N.M.P.M., Eddy County, New Mexico,

to the South Washington Ranch Morrow Gas Pool, is hereby approved. The S/2 of Section 23 shall be dedicated to the well forming a standard 320-acre spacing and proration unit for the South Washington Ranch Morrow Gas Pool.

(2) 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

S E A L

From: Paul R. Owen[SMTP:POwen@westofpecos.com]
Sent: Wednesday, April 12, 2000 9:46 AM
To: Stogner, Michael
Subject: Marbob Proposed Order, Case No. 12370



marbob proposed
order.doc

April 12, 2000

Mr. Michael Stogner
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case No. 12370, Application of Marbob Energy Corporation for approval of an unorthodox well location, Eddy County, New Mexico.

Dear Mr. Stogner:

Today I had hand-delivered to you a proposed order in the above referenced case. The Order addresses the issues which you raised in the April 6, 2000 hearing in this matter.

The proposed order should be attached to this e-mail as well, in Word format. Please let me know if I can be of further assistance.

Very truly yours,

Paul R. Owen

Paul R. Owen
Attorney at law

Campbell, Carr, Berge & Sheridan, P.A.
Post Office Box 2208
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87505
(505) 988-4421
(505) 983-6043 (fax)

**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. _____
ORDER NO. R- _____

**APPLICATION OF MARBOB ENERGY CORPORATION
FOR AN UNORTHODOX WELL LOCATION, EDDY
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NOW, on this ____ day of April, 2000, the Division Director, having considered the testimony, the record, and the recommendation 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, Marbob Energy Corporation ("Marbob"), seeks an exception to Division Rule 104.C.2.a. to permit it to drill its proposed Primero Federal Well #2 at an unorthodox location 2116 feet from the South line and 542 feet from the West line (Unit L) of Section 26, Township 26 South, Range 24 East, South Washington Ranch Morrow Gas Pool, Eddy County, New Mexico. The S/2 of Section 23 is to be dedicated to the well forming a standard 320-acre gas spacing and proration unit in for said pool.

(3) The subject well is located in the South Washington Ranch Morrow Gas Pool. Rule 104.C.2.a. of the General Rules and Regulations of the Oil

Conservation Division provides that wells on 320_ acre spacing units must be located no closer than 660 feet to the nearest section line. Accordingly, Marbob seeks an exception to Rule 104 C.2.a., to permit the drilling of this well at this unorthodox gas well location.

(4) Marbob originally sought administrative approval of this location. However, following discussions with the Division the application was set for hearing to enable Marbob to present additional evidence and respond to questions concerning the proposed well location. At the April 6, 2000 hearing in this matter, Marbob presented letters by which all "affected parties," as defined by Division Rule 1207A.2., waived objection to the location sought by Marbob in this case.

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(6) On August 31, 1999, due to amendments to Division Rule 104.C.(2), the Division expanded the "standard window," or the permissible area in which an operator may drill a well within a 320_ acre unit, within the constraints of Division Rule 104.C. Pursuant to the amendments, initial wells on a 320_ acre unit may be "located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter_ quarter section line or subdivision inner boundary." Prior to that date, wells on a 320_ acre unit were required to be at least 1650 feet from the outer boundary of the quarter section on which the well is located.

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(10) In considering Marbob’s application in this case, the Division considered the following factors, which should be considered by any operator seeking any exception to the well location requirements in Division Rules 104.B. and 104.C.:

- (a) Whether all locations for the proposed well within the standard window set by Division Rule 104 have been eliminated;
- (b) Whether there is geological justification for the proposed location which necessitates granting the sought exception to Division Rule 104, or, if the proposed location is necessitated by surface features, whether the proposed location is in a geologically inferior position to a location within the standard window;
- (c) If the surface location is necessitated by surface features, then the operator should justify why it cannot directionally drill from the proposed unorthodox surface location to a bottomhole location within the standard window established by Division Rules; and,
- (d) Whether the operator seeking the well location exception contemplates developing shallower zones, and whether the proposed well location is within the standard window for those shallower zones. As the Division’s October 25, 1999 Notice observed, “the well location requirement for oil wells on 40_ acre spacing **has not** changed and remains 330 feet from the quarter_ quarter section. Operators need to be wary if a well’s main objective is a deeper gas_ producing interval but there is the possibility of oil production and the location is closer to an interior quarter_ quarter section line than 330 feet. In order to complete the well in a shallower oil_ producing horizon, the operator will be required to obtain

an exception for the unorthodox oil well location. Location exceptions in this situation will not be granted unless unusual circumstances justify the location, and the closer a well is to the neighboring property, the harder it will be to obtain an exception. For example, if the well is only 10 feet of a neighboring property, it is highly unlikely that an exception will be granted.”

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d. Although Marbob's primary objective for the well which is the subject of this application is the Morrow formation, and although Marbob does not plan to encounter or produce oil from a shallow formation from the subject well, the proposed well location is a standard location for an oil well on 40_ acre spacing.

(12) As to the surface features necessitating the well location exception sought in this case, the Division notes that Marbob conducted extensive negotiations with representatives of several divisions of the BLM in an attempt to locate the subject well within the standard window for well locations under Division Rule 104. Several meetings with BLM representatives were conducted on the acreage to be dedicated to the well. Because of the increased flexibility in well location requirements effected by the Division's August 31, 1999 amendments to Division Rule 104, the Division will only grant exceptions to its well location requirements that are supported by "substantial justification, *i.e.*, unusual circumstances." (Division Notice dated October 25, 1999). The Division strongly encourages the BLM and operators to examine all possible locations within a standard window before concluding that the only acceptable location will require an exception to Division Rule 104.

(13) Approval of the subject application will afford the applicant the opportunity to produce its just and equitable share of the gas in the affected pools, will result in the recovery of hydrocarbons that would otherwise be left in the ground and wasted, and will otherwise be in the best interest of conservation and the protection of correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Marbob Energy Corporation for an exception to Division Rule 104.C.2.a., to permit Marbob to drill its proposed Primero Federal Well #2 at an unorthodox location 2116 feet from the South line and 542 feet from the West line (Unit L) of Section 23, Township 26 South, Range 24 East,

N.M.P.M., Eddy County, New Mexico, to the South Washington Ranch Morrow Gas Pool, is hereby approved. The S/2 of Section 23 shall be dedicated to the well forming a standard 320-acre spacing and proration unit for the South Washington Ranch Morrow Gas Pool.

(2) 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

S E A L