

**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. 12468
ORDER NO. R-11446**

**APPLICATION OF OCEAN ENERGY RESOURCES, INC. FOR AN
EXCEPTION TO DIVISION RULE 104.C.(2), EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 10, 2000, at Santa Fe, New Mexico, before Examiner Mark W. Ashley.

NOW, on this 31st day of August, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Ocean Energy Resources, Inc. ("Ocean"), seeks an exception to Division Rule 104.C.(2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, for its proposed Derrick Federal Com Well No. 3 to be drilled as an infill Morrow gas well 3300 feet from the South line and 1980 feet from the West line (Lot 14/Unit M) of irregular Section 5, Township 16 South, Range 28 East, Diamond Mound-Morrow Gas Pool.

(3) The existing 270.20-acre stand-up non-standard gas spacing and proration unit, which was approved by Division Administrative Order NSP-1160 dated October 30, 1979, and comprises Lots 3 through 6 and 11 through 14 of irregular Section 5, is currently dedicated to the applicant's Derrick Federal Com Well No. 1 (API No. 30-015-23057), located 2160 feet from the North line and 1980 feet from the West line (Lot 11/Unit K) of irregular Section 5, which was considered to be a standard gas well location at the time it was drilled in 1980. In 1980, Division rules required deep gas

wells to be located no closer than 1980 feet to the end boundary nor closer than 660 feet to the side boundary of a unit, and no closer than 330 feet to a quarter-quarter section line or subdivision inner boundary.

(4) The Diamond Mound-Morrow Gas Pool is currently governed by Division Rule 104.C.(2), which requires 320-acre spacing and proration units with the initial well to 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. One infill well is allowed on a 320-acre unit, provided it is located in the quarter section not containing the initial well and is 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.

(5) The applicant proposes to drill its Derrick Federal Com Well No. 3 within the same quarter section equivalent as the initial Morrow gas well, its Derrick Federal Com Well No. 1, for the existing 270.20-acre non-standard unit, and further requests to simultaneously dedicate both wells to this unit.

(6) Because of the size of the non-standard unit, and due to the well location rules in effect when the Derrick Federal Com Well No. 1 was drilled, an exception to Division Rule 104.C.(2) is necessary to drill the Derrick Federal Com Well No. 3 at its proposed location. The proposed location of the Derrick Federal Com Well No. 3 will place it approximately 1700 feet from the existing Derrick Federal Com Well No. 1, which is greater than the distance of 1320 feet required by Division Rule 104.C.(2).

(7) Evidence presented indicates that the proposed location of the Derrick Federal Com Well No. 3 is based on geologic reasons.

(8) The applicant presented geologic evidence indicating that:

- (a) the primary target within the Derrick Federal Com Well No. 3 is the Morrow formation, from which the Derrick Federal Com Well No. 1 currently produces;
- (b) the area of greatest Morrow thickness occurs within the southern end of the existing 270.20-acre non-standard unit in Section 5;
- (c) the proposed Derrick Federal Com Well No. 3 is necessary in order to encounter a thicker section of pay than the Derrick Federal Com Well No. 1,

thereby increasing the chances of encountering commercial gas production; and

- (d) production from the Derrick Federal Com Well No. 1 should not be adversely affected by the Derrick Federal Com Well No. 3 because the two wells are located further apart than required by Division Rule 104.C(2).

- (9) Ocean testified it provided notice to all affected parties.

(10) This case was styled such that in absence of objection, it would be taken under advisement.

(11) No other affected party appeared at the hearing or objected to this application.

(12) Approval of Ocean's application will provide Ocean the opportunity to recover additional gas reserves in the Diamond Mound-Morrow Gas Pool within the existing 270.20-acre stand-up non-standard gas spacing and proration unit of irregular Section 5, thereby preventing waste, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

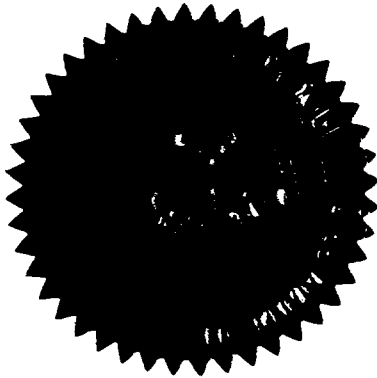
(1) The applicant, Ocean Energy Resources, Inc., is hereby granted an exception to Division Rule 104.C(2) for: (i) the drilling of its proposed Derrick Federal Com Well No. 3 as an infill Morrow gas well 3300 feet from the South line and 1980 feet from the West line (Lot 14/Unit M) of irregular Section 5, Township 16 South, Range 28 East, Eddy County, New Mexico, Diamond Mound-Morrow Gas Pool; and (ii) the simultaneous dedication of the Derrick Federal Com Well No. 1, located 2160 feet from the North line and 1980 feet from the West line (Lot 11/Unit K) of irregular Section 5, Township 16 South, Range 28 East, Eddy County, New Mexico, with the Derrick Federal Com Well No. 3.

(2) Both wells shall be simultaneously dedicated to the existing 270.20-acre stand-up non-standard gas spacing and proration unit which was approved by Division Administrative Order NSP-1160, dated October 30, 1979, comprising Lots 3 through 6 and 11 through 14 of irregular Section 5.

(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

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DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director