



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor

Jennifer A. Salisbury

Cabinet Secretary

May 25, 2000

Lori Wrotenberg

Director

Oil Conservation Division

Texaco Exploration and Production, Inc.

P. O. Box 3109

Midland, Texas 79701

Attention: A. Phil Ryan

Re: *Administrative application dated May 23, 2000 for 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 Texaco Exploration and Production, Inc. to drill its proposed Cotton Draw Unit Well No. 89 at an unorthodox Wolfcamp gas well location 250 feet from the South line (which is 67 % closer to the south line of this well's proposed unit than allowed) and 1980 feet from the East line (Unit O) of Section 3, Township 25 South, Range 31 East, NMPM, Eddy County, New Mexico. Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 3 is to be dedicated to this well in order to form a standard 319.38-acre gas spacing and proration unit within the closer Undesignated Big Sinks-Wolfcamp Gas Pool.*

Dear Mr. Ryan:

Pursuant to the attached notice dated October 25, 1999, the intent of the recent changes to Division Rule 104, with respect to deep gas wells in southeast New Mexico is to provide operators greater flexibility in locating deep gas wells within 320-acre units. This allows an operator to drill at an optimal location within a 320-acre unit while avoiding surface obstructions and to take advantage of geological diversity without encroaching neighboring properties and/or offsetting units. These rules, enacted under Section 70-2-11, NMSA 1978, of the Oil and Gas Act ("Act"), serve to protect correlative rights while simultaneously promoting the orderly development of oil and gas resources.

Texaco's request to drill the above-described Cotton Draw Unit Well No. 89 at the proposed location is deemed unreasonable; therefore, your application for administrative approval under Division Rule 104.F is hereby **denied**.

Thank you for your understanding, cooperation, and continued support in making this newly improved portion of New Mexico's conservation rules a meaningful success.

Sincerely,

Michael E. Stogner

Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
U. S. Bureau of Land Management - Roswell
Kathy Valdes, NMOCD - Santa Fe
Mr. William F. Carr, Legal Counsel for Texaco Exploration and Production Inc. - Santa Fe




NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

NOTICE

TO: All Oil and Gas Operators, Mineral Interest Owners,
and Interested Parties

FROM:  Lori Wrotenbery, Director

SUBJECT: Implementation of Amended Division Rule 104

DATE: October 25, 1999

Amendments to Division Rule 104 "Well Spacing and Location," adopted by the New Mexico Oil Conservation Commission in Order R-11231 (Case 12119) on August 12, 1999, became effective August 31, 1999. Attached to this notice are copies of Order No. R-11232, with the amended Rule 104 attached, and the recently amended Rule 1207 concerning notice requirements.

Summary of Changes

The amendments made five main changes in Rule 104:

- (1) the rule has been shortened and reorganized;
- (2) well location setbacks for all gas development on 160-acre spacing throughout the State are now standardized at 660 feet from the outer boundary of the quarter section line;
- (3) well location setbacks for deep gas development on 320-acre spacing in Southeast New Mexico have been relaxed from 1650 feet from an end boundary to 660 feet;
- (4) one optional infill well is now allowed within 320-acre deep gas units in Southeast New Mexico; and
- (5) interior 330-foot setbacks from quarter-quarter section lines for both 160-acre and 320-acre gas units governed by Rule 104 have been reduced to 10 feet.

Effect of Changes

Since 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

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exceptions will require substantial justification, *i.e.*, unusual circumstances. Please also note the recent changes made to the notice requirements for unorthodox locations found in Division Rule 1207.A(2).

Furthermore, 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 a neighboring property, the harder it will be to obtain an exception. For example, if the well is only 10 feet off a neighboring property, it is highly unlikely an exception will be granted.

Regarding the new provision authorizing one infill well in a 320-acre deep gas unit in Southeast New Mexico, application can be made to adopt or amend special pool rules to limit the number of wells per spacing unit in any pool where infill wells are not justified. The notice requirements for special pool rules were also recently amended to accommodate this type of action. See Division Rule 1207.A(4).

Unless otherwise provided by special pool rules or amended Rule 104 (*e.g.*, the infill provision for deep gas pools in Southeast New Mexico), only **one** well per spacing unit is permitted in non-prorated pools. The Division Director, however, may grant administrative exceptions in appropriate circumstances.

Effect on Existing Orders

Any existing special pool rule or other order specific to well locations (*e.g.*, a production penalty on an unorthodox well location now standard under amended Rule 104) shall remain in full force and effect until the order is amended. Operators should review these orders to determine whether to file applications to conform the orders to amended Rule 104.

In the near future, a hearing will be held before a Division Hearing Examiner addressing the few deep gas pools in Southeast New Mexico still spaced on 160 acres. At the hearing, the Division will consider whether to issue an order listing these pools and setting forth setback requirements mirroring, if applicable, the setbacks for shallow gas wells in Southeast New Mexico.

Division Memoranda dated July 27, 1988 and August 3, 1990 concerning the interpretation of old Rule 104 are hereby withdrawn.

Attachments