

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:

NOMENCLATURE

CASE NO. 11599

ORDER NOS. R-9722-C and R-10448-A

APPLICATION OF GILLESPIE-CROW, INC. FOR POOL EXPANSION AND
CONTRACTION, POOL CREATION, AND THE PROMULGATION OF
SPECIAL POOL RULES THEREFOR, LEA COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 22, 1996 and on October 3, 1996, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 26th day of February, 1997 the Division Director, having considered the testimony, the record and the recommendations 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) By Division Order No. R-9722, issued in Case No. 10530 and dated September 23, 1992, as amended by Order Nos. R-9722-A and R-9722-B, the West Lovington-Strawn Pool (originally designated the East Big Dog-Strawn Pool) was created and designated as an oil pool for the production of oil from the Strawn formation in Lea County, New Mexico. Said orders also promulgated special rules and regulations for said pool including provisions for standard 80-acre oil spacing and proration units subject to a depth bracket oil allowable of 445 barrels of oil per day and designated well location requirements.

(3) The West Lovington-Strawn Pool currently comprises the following described acreage in Lea County, New Mexico:

FEB 27 1997

MILLER, STRATVERT, TONGERSON
& SCHLENKER, P.A.
SANTA FE, NEW MEXICO

NMOCD CASE NO. 12680
JUNE 28, 2001
ENERGEN EXHIBIT 5

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 28: SE/4
Section 32: SE/4
Section 33: NE/4 and S/2
Section 34: S/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1 through 8
Section 2: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 1, 2, 7, and 8.

(4) By Division Order No. R-10449, issued in Case 11195 to Gillespie-Crow, Inc. and dated August 29, 1995, the West Lovington Strawn Unit Area ("WLSU") comprising the following described 1,458.95 acres, more or less, of State, Federal, and fee lands in the designated and Undesignated West Lovington-Strawn Pool was approved for unitization under the Statutory Unitization Act, Sections 70-7-1 through 70-7-21, NMSA, (1978), which became effective October 1, 1995:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 33: All
Section 34: W/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 3 through 5.

(5) In October, 1995, under the authority of Division Order No. R-10448, issued in Case 11194 and dated August 29, 1995, Gillespie-Crow, Inc. instituted its West Lovington Strawn Unit Pressure Maintenance Project by the commencement of gas injection operations within said WLSU. Said Order No. R-10448 further provided for a project allowable, pursuant to Division General Rule 701.F(2), to be assigned the West Lovington Strawn Unit Pressure Maintenance Project equal to top unit allowable for the West Lovington-Strawn Pool (445 barrels of oil per day) times the number of developed (production or injection) proration units within the project area. At the time said WLSU and corresponding pressure maintenance project were established the project allowable was 4,895 barrels of oil per day.

(6) At this time the applicant in this matter, Gillespie-Crow, Inc., seeks an order

extending the horizontal limits of the West Lovington-Strawn Pool in Lea County, New Mexico to include therein:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 27: S/2 S/2
Section 28: S/2 SW/4
Section 29: S/2 SE/4
Section 32: NE/4
Section 33: NW/4
Section 34: N/2

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 9 through 12

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 3, 4, 5, 6, 11, and 12.

AND THE concomitant contraction of the West Lovington-Strawn Pool in Lea County, New Mexico by deleting therefrom:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 28: N/2 SW/4
Section 32: S/2 SE/4

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 2: Lots 1 through 8

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 6: Lots 1 and 8.

(7) Further, Gillespie-Crow, Inc., seeks the creation of a new pool for the production of oil from the Strawn formation to comprise the following described acreage in Lea County, New Mexico:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 32: S/2 SE/4

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 2: Lots 3 through 6.

(8) At the time of the hearing Yates Petroleum Corporation appeared and

presented evidence and testimony in opposition to the Gillespie-Crow, Inc. application. The following interest owners appeared at the hearing through legal counsel in opposition to this case: Yates Drilling Company; Abo Petroleum Corporation; Myco Industries, Inc.; Hanley Petroleum, Inc.; David Petroleum Corporation; Rio Pecos Corporation; Pathfinder Exploration Company; Cannon Exploration Company; Hollyhock Corporation; Tar-Jon Corporation; Lario Oil and Gas Company; and Vierson and Cochran. Ensearch Exploration Inc. and Chesapeake Oil Company also appeared at the hearing through legal counsel.

(9) Geologic evidence presented by the applicant indicates the presence of two separate porous algal reef mounds within the horizontal limits of the West Lovington-Strawn Pool and that the following three wells are completed in and producing from a much smaller mound that is completely separated from the larger mound to the east in which the WLSU is situated:

- (i) the Charles B. Gillespie, Jr. Baer Well No. 2 (API No. 30-025-33036) located 810 feet from the South line and 2200 feet from the East line (Unit O) of Section 32, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico;
- (ii) the Amerind Oil Company, Ltd. Mobil State Well No. 1 (API No. 30-025-32846) located 330 feet from the North line and 2298 feet from the West line (Lot 3/Unit C) of Section 32, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico; and,
- (iii) the Amerind Oil Company, Ltd. Gallagher State Well No. 2 (API No. 30-025-32913) located 2646 feet from the North line and 2299 feet from the West line (Lot 6/Unit F) of said Section 32.

(10) There is sufficient justification to contract the West Lovington-Strawn Pool by the deletion therefrom of the: (i) W/2 SE/4 of Section 32, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico; and, (ii) of Lots 2, 3, 4, 5, 6, and 7 of Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico; and create a new and separate pool for the production of oil from the small mound within the Strawn formation that contributes to the three aforementioned wells in Finding Paragraph No. (9) above.

(11) The applicant at the time of the hearing proposed this new pool be

designated the "*South Big Dog-Strawn Pool*". Such name is deemed appropriate and should therefore be accepted.

(12) The applicant further seeks the promulgation of special rules for the newly created "*South Big Dog-Strawn Pool*" including provisions for 80-acre oil spacing and proration units, designated well location requirements, both of which are to be identical to those provisions currently governing the West Lovington-Strawn Pool, including the standard assigned depth bracket oil allowable of 445 barrels of oil per day for each 80-acre unit.

(13) The other pool contractions and extensions of the West Lovington-Strawn Pool as proposed by Gillespie-Crow, Inc. are not based on productive acreage. The boundary adjustment to the West Lovington-Strawn Pool should therefore only include the following acreage:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 32: W/2 SE/4

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 2: Lots 2 through 7.

Note, however, that the regulations and rules for pools extend one mile beyond their respective boundaries pursuant to Division Rule 104.A(3).

(14) There are currently eleven active wells within the West Lovington Strawn Unit Pressure Maintenance Project area, one injection well that re-injects gas into the reservoir gas cap and ten producing wells. In order to maintain adequate reservoir pressure within the WLSU, voluntary production restrictions were instituted by Gillespie-Crow, Inc. to maintain stable production and prevent harm to the reservoir.

(15) According to the geological and technical evidence presented, it appears that the larger porous algal reef mound that contains the reservoir that comprises the WLSU extends beyond the horizontal limits set forth in said Order No. R-10449. With the onset of gas re-injection operations into the reservoir gas cap of the West Lovington Strawn Unit Pressure Maintenance Project two additional wells that lay outside of the WLSU: (1) the Hanley Petroleum Inc. Chandler Well No. 1 (API No. 30-025-33175) located 330 feet from the South line and 1650 feet from the East line (Unit O) of Section 28, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico; and, (2) the Gillespie-Crow, Inc. State Well No. 1 (API No. 30-025-33068) located 1650 feet from the South and East lines (Unit J) of Section 34, Township 15 South, Range 35 East, NMPM, Lea County, New Mexico; are both in pressure communication with WLSU wells and are also capable

of top unit allowable production. Such unrestricted rates of production from this reservoir from these wells is counter productive to the overall capabilities of this reservoir. In order to prevent waste and the premature abandonment of this reservoir, measures should be enacted to assure that adequate reservoir pressure is maintained throughout and that the gas cap within this reservoir is managed in a prudent manner. The applicant proposed that the current special pool rules promulgated by said Order No. R-9722, as amended, remain in effect with the exception of **RULE 6**, which would be amended to read:

*"**RULE 6:** A standard proration unit (79 through 81 acres) within West Lovington-Strawn Pool shall be subject to an 80 acre depth-bracket allowable of 250 barrels of oil per day. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres. However, as to any well located outside the boundaries of the West Lovington Strawn Unit, except the State "S" Well No. 1, located in the W/2 SE/4 of Section 34, Township 15 South, Range 35 East, the depth bracket allowable shall revert to 445 barrels of oil per day for a standard proration unit on the earlier of: (a) one year after the well's completion, unless the unit operator applies to the Division on or before that date for expansion of the unit to include said well unit; or (b) the date the well's operator proves to the Division that the well is not completed in the same reservoir as wells in the West Lovington Strawn Unit".*

FINDING: Such an amendment in effect sets a double standard for a single pool and only lends to confusion in the setting of allowables to units in a pool. In order to preserve continuity in the rules for the West Lovington-Strawn Pool and to assure fairness for all operators of wells within this reservoir a single depth bracket oil allowable of 250 barrels of oil per day for a standard 80-acre oil spacing and proration unit should be adopted for the West Lovington-Strawn Pool. Furthermore, the concept of a project allowable being assigned to the West Lovington Strawn Pressure Maintenance Project Area should cease [see Decretory Paragraph No. (14) on page 7 of Division Order No. R-10448] and all producing wells whether inside or outside the WLSU should be treated the same. No gas injection well(s) or units containing a gas injection well will be assigned or credited an allowable.

(16) The contraction of the West Lovington-Strawn Pool, and concomitant creation of the proposed South Big Dog-Strawn Pool, the adoption of special pool rules for the newly formed pool, and the amendment to the West Lovington-Strawn Pool rules, all as described above, are all in the best interests of conservation, will enable the operators to produce their just and fair share of production from the reservoirs in a prudent manner, and will otherwise serve to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The West Lovington-Strawn Pool in Lea County, New Mexico, as heretofore classified, defined, and described, is hereby contracted by the deletion of the following described area:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 32: W/2 SE/4

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 2: Lots 2 through 7.

(2) Concomitantly a new pool in Lea County, New Mexico, classified as an oil pool for Strawn production is hereby created and designated the South Big Dog-Strawn Pool, with vertical limits comprising the Strawn formation and the horizontal limits comprising that area described in Decretory Paragraph No. (1) above.

(3) Special Rules and Regulations for the newly created South Big Dog-Strawn Pool are hereby promulgated as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
SOUTH BIG DOG-STRAWN POOL**

RULE 1: Each well completed or recompleted in the South Big Dog-Strawn Pool or in the Strawn formation within one mile thereof, and not nearer to or within the limits of another Strawn oil pool, shall be spaced, drilled, operated and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2: Each well shall be located on a standard unit containing 80 acres, more or less, consisting of the N/2, S/2, E/2 or W/2 of a governmental quarter section; provided however, that nothing contained herein shall be construed as prohibiting the drilling of a well on each of the two quarter-quarter sections in that unit.

RULE 3: The Director of the Oil Conservation Division, hereinafter referred to as the "Division", may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been duly filed under the provisions of Rule 104.D(2) of the General Rules

and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996.

RULE 4: Each well shall be located no closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1020 feet to the nearest well drilling to or capable of producing from the same pool.

RULE 6: The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been duly filed under the provisions of Rule 104.F of said General Rules and Regulations of the Division.

RULE 7: A standard proration unit (79 through 81 acres) shall be subject to an 80-acre depth-bracket allowable of 445 barrels of oil per day. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres.

(4) The operator of any well affected by this order shall file with the appropriate District Office of the Division a new Form C-104 (Request For Allowable And Authorization To Transport Oil And Natural Gas) pursuant to Division General Rule 1104.E.

IT IS FURTHER ORDERED THAT:

(5) "RULE 6" of the "*Special Rules and Regulations for the West Lovington-Strawn Pool*", as promulgated by Division Order No. R-9722, as amended, is hereby amended to read in its entirety as follows:

" RULE 6: A standard proration unit (79 through 81 acres) shall be subject to an 80-acre depth-bracket allowable of 250 barrels of oil per day. The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 80 acres."

FURTHERMORE:

(6) Decretory Paragraph (14) of Division Order No. R-10448, issued in Case

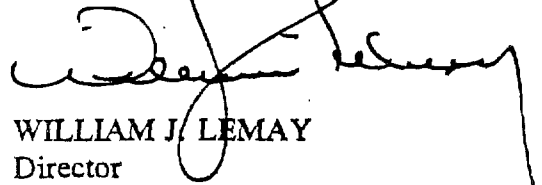
11194 and dated August 29, 1995, is hereby amended to read in its entirety as follows:

" (14) The West Lovington Strawn Pressure Maintenance Project Area shall not be assigned a project allowable. Only producing standard proration units (79 through 81 acres) shall be subject to an 80-acre depth-bracket allowable as prescribed by the applicable special rules and regulations for the West Lovington-Strawn Pool."

(7) Jurisdiction of this cause is 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



WILLIAM J. LEMAY
Director

SEAL