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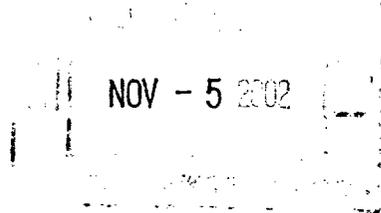
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November 2, 2002



Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 12916/Ocean Energy, Inc./special pool rules

Dear Mr. Stogner:

Enclosed is a proposed order (hard copy and disk). Ocean's geologist has spoken with Bryan Arrant in Artesia, and the proposed vertical limits of the pool reflect that discussion. In addition, the Artesia District Office requested that the pool be named the Alacran hills-Lower Bone Spring Pool.

Very truly yours,

James Bruce

Attorney for Ocean Energy, Inc.

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. 12916
ORDER NO. R- _____

APPLICATION OF OCEAN ENERGY, INC. FOR
POOL CREATION AND SPECIAL POOL RULES,
EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 24, 2002, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of November, 2002, 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, Inc. ("Ocean"), seeks the creation of a new pool for the production of oil from the lower Bone Spring formation comprising the NW¼ of Section 10, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

(3) Ocean further seeks to establish special pool rules for the proposed Strawn pool, including provisions for:

- (a) 160-acre spacing and proration units, with wells to be located no closer than 660 feet to quarter section line nor closer than 330 feet to a quarter-quarter section line or subdivision inner boundary;
- (b) a limiting gas:oil ratio of 4000 cubic feet of gas for each barrel of oil produced; and
- (c) an effective date of April 1, 2002.

(4) The testimony and Division records indicate that the Cerf Federal Well No. 2, located 1980 feet from the north line and 1980 feet from the west line of Section 10, Township 21 South, Range 27 East, N.M.P.M., was originally drilled in 1976 and dually completed

in the Strawn and Morrow formations (Burton Flat-Strawn Gas Pool and Burton Flat-Morrow Gas Pool). On or about April 17, 2002 the well was completed in the Bone Spring formation through perforations at 8367-8418 and 8462-9492 feet. The well IP'd in the Bone Spring formation at a rate of 770 BOPD and 1041 MCFGPD. Under Division statewide rules, the well is classified as an oil well.

- (5) Ocean's land evidence demonstrates that
- (a) there are several Bone Spring pools within a mile of the proposed pool, including the East Avalon-Bone Spring Pool, East Avalon-Bone Spring Gas Pool, Avalon-Lower Bone Spring Pool, Magruder-Bone Spring Gas Pool, and Cedar Hills-Bone Spring Pool;
 - (b) the NW $\frac{1}{4}$ of Section 10 is comprised of two federal leases, Lease NM 14768 covering the N $\frac{1}{2}$ NW $\frac{1}{4}$ and SE $\frac{1}{4}$ NW $\frac{1}{4}$, and Lease NM 17097 covering the SW $\frac{1}{4}$ NW $\frac{1}{4}$; and
 - (c) working interest ownership is common throughout the NW $\frac{1}{4}$ of Section 10 under an operating agreement.
- (6) Ocean's geologic evidence demonstrates that:
- (a) the Cerf Federal Well No. 2 is producing from a lower Bone Spring carbonate interval that is stratigraphically more than 3000 feet lower than the intervals being produced in the other Bone Spring pools in the area, which produce from an upper Bone Spring sand interval;
 - (b) the reservoir is limited in extent, but the entire NW $\frac{1}{4}$ of Section 10 should be productive from the lower Bone Spring interval;
 - (c) the Cerf Federal Well No. 2 appears to have penetrated the lower Bone Spring interval in the area of greatest carbonate thickness. Although offsetting wells in the NW $\frac{1}{4}$ and SW $\frac{1}{4}$ of Section 10 have the lower Bone Spring interval present, they are not productive in that interval; and
 - (d) the Cerf Federal Well No. 2 appears not to be productive in the upper Bone Spring intervals which are productive in the other Bone Spring pools in the area.
- (7) Ocean's engineering evidence demonstrates that:

- (a) original oil in place in the NW¼ of Section 10 is estimated at 187,000 BO. However, decline curve reserves show an estimated recovery of 28,000 BO and 300,000 MCF of gas from the Cerf Federal Well No. 2. Thus, recoveries and drainage area in the lower Bone Spring formation are uncertain at this time;
- (b) the original gas:oil ratio for the Cerf Federal Well No. 2 was 1712:1. However, the gas:oil has increased rapidly, and a 4000:1 gas:oil is reasonable and will not result in depletion of reservoir energy;
- (c) the Cerf Federal Well No. 2 should ultimately drain reserves from each of the four quarter-quarter sections in the NW¼ of Section 10; and
- (d) due to projected low recoveries, it is uneconomic at this time to drill additional wells to recover lower Bone Spring oil and gas reserves within the NW¼ of Section 10.

(8) No offset operator or interest owner in the Cerf Federal Well No. 2 appeared at the hearing in opposition to the application.

(9) The evidence presented demonstrates that the Cerf Federal Well No. 2 has discovered a new common source of supply in the Bone Spring formation.

(10) A new pool for the production of oil from the lower Bone Spring formation should be created and designated the Alacran Hills-Lower Bone Spring Pool, with vertical limits comprising depths from the top of the Third Bone Spring Carbonate to the top of the Wolfcamp formation, defined as a depth of 7510-8746 feet subsurface in the Schlumberger Compensated Neutron-Formation Density Log dated September 27, 1976 for the Cerf Federal Well No. 2.

(11) The engineering evidence currently available demonstrates that approval of Ocean's request for 160-acre spacing and a limiting GOR of 4000:1 for the Alacran Hills-Lower Bone Spring Pool will not result in excessive waste of reservoir energy, will not reduce the ultimate recovery of oil from the reservoir, and will not violate correlative rights.

(12) In order to prevent waste and protect correlative rights, special pool rules should be established for the Alacran Hills-

Lower Bone Spring Pool.

(13) The special pool rules should provide for well locations such that a well shall be located no closer than 660 feet to any outer boundary of a spacing and proration unit, and no closer than 330 feet to any quarter-quarter section line or subdivision inner boundary.

(14) In order to allow all interest owners in the NW¼ of Section 10 to share in production from the Cerf Federal Well No. 2 from the date of first production from the lower Bone Spring formation, the special pool rules for the Alacran Hills-Lower Bone Spring Pool should be made effective on April 1, 2002.

(15) Pursuant to Division Rules 505.A and 506.A, the subject pool shall be assigned a depth bracket allowable of 470 barrels of oil per day at a limiting gas:oil ratio of 4000 cubic feet of gas per barrel of oil produced.

(16) The special pool rules for the Alacran Hills-Lower Bone Spring Pool established by this order should remain in effect for a temporary period of one year in order to allow operators in the pool the opportunity to obtain additional engineering data to support the permanent adoption of these rules.

(17) This case should be re-opened at an examiner hearing in December 2003, at which time operators in the Alacran Hills-Lower Bone Spring Pool should appear to show cause why the temporary special pool rules established by this order should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Ocean Energy, Inc., a new pool for the production of oil from the lower Bone Spring formation is hereby created and designated the Alacran Hills-Lower Bone Spring Pool, with vertical limits comprising depths from the top of the Third Bone Spring Carbonate to the top of the Wolfcamp formation, defined as a depth of 7510-8746 feet subsurface in the Schlumberger Compensated Neutron-Formation Density Log dated September 27, 1976 for the Cerf Federal Well No. 2, located 1980 feet from the north line and 1980 feet from the west line of Section 10, Township 21 South, Range 27 East, N.M.P.M., and horizontal limits comprising the NW¼ of Section 10, Township 21 South, Range 27 East, N.M.P.M., Eddy County, New Mexico.

(2) Temporary special rules for the Alacran Hills-Lower Bone Spring Pool are hereby adopted effective on April 1, 2002 as follows:

TEMPORARY SPECIAL POOL RULES FOR THE
ALACRAN HILLS-LOWER BONE SPRING POOL

RULE 1: Each well completed or recompleted in the Alacran Hills-Lower Bone Spring Pool or within one mile thereof, and not nearer to or within the limits of another designated Bone Spring pool, shall be spaced, drilled, operated, and produced in accordance with these rules.

RULE 2: Each well completed or recompleted in the Alacran Hills-Lower Bone Spring Pool shall be located on a unit containing 160 acres, more or less, which consists of the NE $\frac{1}{4}$, NW $\frac{1}{4}$, SW $\frac{1}{4}$, or SE $\frac{1}{4}$ of a single governmental section.

RULE 3: The Director may grant an exception to the requirements of Rule 2 in accordance with the procedure set by Division Rule 104.D.(2).

RULE 4: Each well shall be located no closer than 660 feet to any outer boundary of a spacing and proration unit, and no closer than 330 feet to any quarter-quarter section line or subdivision inner boundary.

RULE 5: The Director may grant an exception to the requirements of Rule 4 in accordance with the procedure set by Division Rule 104.F.

RULE 6: The allowable for a standard 160-acre oil proration unit (158 through 162 acres) shall be based on a depth bracket allowable of 470 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 160 acres.

RULE 7: The limiting gas:oil ratio shall be 4000 cubic feet of gas per barrel of oil produced.

(3) The location of all wells presently drilling to, or completed in, the Alacran Hills-Lower Bone Spring Pool, or in the lower Bone Spring formation within one mile thereof, are hereby approved. The operator of any well having an unorthodox location shall notify the Artesia District Office, in writing, of the name and location of the well within 30 days of the date of this order.

(4) Existing wells in the Alacran Hills-Lower Bone Spring Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules, or existing wells may have non-standard spacing and proration units established by the Division dedicated thereto.

Failure to file new Form C-102s with the Division dedicating 160 acres to a well, or to obtain a non-standard unit approved by the Division within 60 days from the date of this order, shall subject the wells to cancellation of allowable until a non-standard unit has been approved.

(5) This matter shall be reopened at an examiner hearing in December 2003, at which time operators in the Alacran Hills-Lower Bone Spring Pool shall appear and present evidence to show cause why the temporary special pool rules established by this order should not be rescinded.

(6) 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 date and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

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