

**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. 13008
ORDER NO. R-11975**

**APPLICATION OF YATES PETROLEUM CORPORATION FOR
SIMULTANEOUS DEDICATION, CHAVES COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on March 27, 2003, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 12th day of June, 2003, 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, Yates Petroleum Corporation ("Yates"), seeks approval to simultaneously dedicate the following three wells to an existing standard 320-acre spacing and proration unit consisting of the N/2 of Section 5, Township 10 South, Range 26 East, NMPM, Chaves County, New Mexico, for production from the Siluro-Devonian, Strawn, Cisco, and Wolfcamp formations:

(a) Quiniela AXQ State Well No. 1 to be located at a standard gas well location in the NW/4 of Section 5;

(b) Quiniela AXQ State Well No. 2 (API No. 30-005-63364) located at a standard gas well location 1980 feet from the North and East lines (Unit G) of Section 5; and

(c) Quiniela AXQ State Well No. 3 to be located at a standard gas well location 660 feet from the North line and 1650 feet from the East line (Unit B) of Section 5.

The Quiniela AXQ State Well No. 2 is already drilled and producing and located in the NE/4 of Section 5, and the Quiniela AXQ State Well No. 3 will also be located in the NE/4 of Section 5.

(3) All of Section 5 is located within the Foor Ranch-Wolfcamp Gas (76750) Pool, which includes the entire Wolfcamp formation, and the Foor Ranch-PrePermian Gas (76730) Pool, which includes all formations older than Permian age including the Cisco, the Strawn, the Mississippian, and the Siluro-Devonian. Both of these two pools are governed by statewide Division Rule 104.C.(2).

(4) Division Rule 104.C.(2), covering gas wells in Lea, Chaves, Eddy, or Roosevelt Counties of Wolfcamp or older age, requires wells to be located on a spacing unit consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U.S. Public Land Surveys provided that:

(a) the initial well on a 320-acre unit is 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;

(b) only one infill well on a 320-acre unit shall be allowed provided that the well is located in the quarter section of the 320-acre unit not containing the initial well and is no closer than 660 feet to the outer boundary of the quarter section and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary; and

(c) the Division-designated operator for the infill well is the same operator currently designated by the Division for the initial well.

(5) Division Rule 104.D.(3) provides for the Director of the Division to grant exceptions to the provisions of statewide rules or special pool rules concerning the number of wells allowed per spacing unit. Such provision for exceptions requires notice and opportunity for hearing for those affected persons as defined in Rule 1207.A.(2).

(6) Affected offset working interest owner EOG Resources Oil and Gas Inc. ("EOG") appeared at the hearing through legal counsel but did not protest the application.

(7) No other affected party appeared at the hearing in person or through legal counsel.

(8) The applicant presented land testimony pertaining in general to the southern Sections of Township 9 and the northern Sections of Township 10 South, Range 26 East, NMPM, Chaves County, New Mexico as follows:

(a) Yates is the operator of record in the two pools of interest in all spacing units surrounding the N/2 of Section 5, Township 10 South, Range 26 East, NMPM, Chaves County, New Mexico, except for those spacing units in Section 6 to the west and Section 31 to the northwest. Yates owns 100 percent of the working interest in surrounding spacing units that are operated by Yates, except for those spacing units in Section 32 to the north, where Yates shares working interests with EOG and other smaller interest owners;

(b) Sections 4 and 5, and Section 33 to the northeast have identical ownership in all intervals. Section 32 to the north is part of a working interest unit with varying interests from the Abo to the deeper pools;

(c) Sections 6 and 31 are Federal minerals while Sections 4, 5, 32, and 33 are all State minerals; and

(d) Yates notified all working interest owners in all surrounding spacing units of the Yates application in this case.

(9) The applicant presented geologic testimony as follows:

(a) the primary objective in this area is the Siluro-Devonian "B" interval. The best secondary objective is the Wolfcamp Spear interval. Within this vicinity, both of these objectives have been significant gas producers. Other objectives are the Cisco and Strawn, these being less important due to their heterogeneity and difficulty in completion;

(b) the Quiniela AXQ State Well No. 2 wellbore did not encounter the Wolfcamp Spear or the Siluro-Devonian "B" intervals. Neither of these pay intervals will ever produce in this well bore. The Siluro-Devonian "B" interval has been faulted out in the vicinity of this well bore. These faults are delineated by well control and by 2-D seismic. The Wolfcamp Spear interval is present in this wellbore but has no effective porosity development;

(d) the Siluro-Devonian "B" interval is expected to be optimally developed in the vicinity of the NW/4 NE/4 of Section 5, while the

Wolfcamp Spear interval is expected to be optimally developed in the NE/4 NW/4 of Section 5;

(e) the Wolfcamp Spear gas reserves under the NW/4 of Section 5 are subject to future drainage by a newly re-completed well located in the NE/4 of Section 6; and

(f) since the Quiniela AXQ State Well No. 2 did not encounter the main two objectives, an additional two wells are needed in this N/2 spacing unit to encounter and produce the Siluro-Devonian "B" interval and the Wolfcamp Spear interval.

(10) The Division records show:

(a) in July 2001, the Quiniela AXQ State Well No. 2 was perforated in the upper Strawn (Foor Ranch-PrePermian Gas Pool), hydraulically fractured, tested at approximately 150 Mcf per day, and isolated with a cast iron bridge plug;

(b) in November 2001, an interval in the lower Wolfcamp (Foor Ranch-Wolfcamp Gas Pool) 90 feet below the Wolfcamp Spear was perforated, hydraulically fractured and flow tested at 245 Mcf per day. This production had declined to 10 Mcf per day by April 2002;

(c) in May 2002, the bridge plug above the Strawn was drilled out and the lower Siluro-Devonian (below the faulted out Siluro-Devonian "B" interval) was perforated, acidized, and tested below a packer at 477 Mcf per day and 151 barrels of water per day;

(d) in September 2002, administrative order DHC-3051 authorized downhole commingling of the lower Wolfcamp and the Strawn, both flowing up the tubing-casing annulus. The lower Siluro-Devonian was still producing up the tubing;

(e) the Foor Ranch-PrePermian Gas Pool completions in this well (Strawn plus lower Siluro-Devonian) currently produce approximately 150 Mcf per day and 40 barrels of water per day; and

(f) the Foor Ranch-Wolfcamp Gas Pool completion in this well produces approximately 5 Mcf per day.

(11) Division records and the applicant's evidence presented in this case demonstrate that the drilling of an additional two wells at standard locations in this existing standard 320-acre spacing unit with a total of two wells in the NE/4 is necessary to encounter these main pay intervals in the Foor Ranch-Wolfcamp Gas Pool and the Foor Ranch-PrePermian Gas Pool and recover gas reserves that will never be recovered by the existing Quiniela AXQ State Well No. 2.

(12) Yates did not present any engineering or other evidence to demonstrate that more than two simultaneous completions within any individual pay interval within this spacing unit are necessary to prevent waste and protect correlative rights.

(13) This application should be approved to allow an additional two wells in this spacing unit with two wells total in the NE/4 of Section 5.

(14) This application should not be approved insofar as the approval would allow more than two simultaneous completions in this spacing unit for any given pay interval. The pay intervals consist of, but are not limited to, the Wolfcamp Spear, the lower Wolfcamp, the Cisco, the Strawn, the Mississippian, the Siluro-Devonian "B", and the lower Siluro-Devonian.

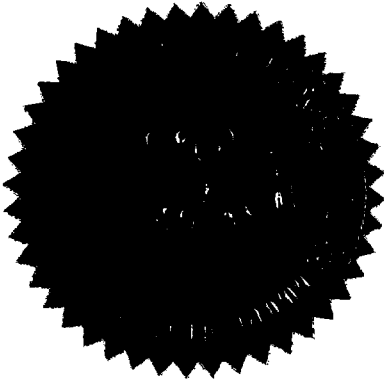
IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Petroleum Corporation ("Yates") is hereby approved to simultaneously dedicate three wells to existing standard 320-acre spacing and proration units consisting of the N/2 of Section 5, Township 10 South, Range 26 East, NMPM, Chaves County, New Mexico, for production from the Foor Ranch-Wolfcamp Gas Pool and the Foor Ranch-PrePermian Gas Pool. All three of these wells shall be at standard locations and two of these wells are allowed in the NE/4 of Section 5. The existing Quiniela AXQ State Well No. 2 (API No. 30-005-63364) shall be one of the three wells authorized.

(2) Yates shall not produce from any given pay interval simultaneously in both wells in the NE/4 of Section 5. Such pay intervals are vertical subsets of the Division-designated gas pools. The Artesia District office of the Division shall identify these pay intervals by correlating between wells on electric logs and shall not allow any one pay interval in the NE/4 of Section 5 to be produced by more than one well at a time.

(3) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenberg
LORI WROTENBERG
Director