

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. 10280
ORDER NO. R-9594

APPLICATION OF KNOX INDUSTRIES
INC. FOR SPECIAL POOL RULES, LEA
AND ROOSEVELT COUNTIES, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 19, 1991, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 10th day of October, 1991 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) The applicant, Knox Industries Inc., seeks an order promulgating special pool rules for the Milnesand-Abo Pool, including a provision for 80-acre spacing and proration units and designated well location requirements.

(3) The subject pool was created and defined by Division Order No. R-2946, dated August 18, 1965, and is currently spaced on statewide 40-acre oil spacing as per Division Rule No. 104 (C)(1).

(4) The Milnesand-Abo Pool currently comprises the following described acreage in both Lea and Roosevelt Counties, New Mexico:

ROOSEVELT COUNTY, NEW MEXICO
TOWNSHIP 8 SOUTH, RANGE 35 EAST, NMPM

Section 33: E/2

Section 34: S/2

LEA COUNTY, NEW MEXICO
TOWNSHIP 9 SOUTH, RANGE 35 EAST, NMPM

Section 3: NW/4

(5) The discovery well for the subject pool was the J.C. Williamson Mobil Federal Well No. 2 located in Unit A of said Section 33, which was completed in the Abo formation through perforations from 8880 feet to 8930 feet on May 17, 1965.

(6) Division records indicate that said well ceased to produce on March 1, 1967, and was subsequently plugged and abandoned during April, 1968.

(7) The applicant has recently acquired the Purvis Oil Corporation Federal 3-C Well No. 2 located 660 feet from the North line and 1880 feet from the West line (Unit C) of Section 3, Township 9 South, Range 35 East, NMPM, which was completed in the Milnesand-Abo Pool on October 8, 1990.

(8) The evidence indicates that there are only two additional wells currently completed in or producing from the subject pool, these being the Petroleum Production Management Inc. Will "693" Ltd. Nos. 3 and 4 located, respectively, in Units N and J of Section 34, Township 8 South, Range 35 East, NMPM.

(9) The evidence currently available indicates that the aforementioned Federal 3-C Well No. 2 may be capable of draining an area in excess of 40 acres.

(10) Though not present at the hearing, Petroleum Production Management Inc. and BTA Oil Producers, the only other operators and/or owners of acreage within the pool, concurred with the applicant's request via letter presented as evidence in this case.

(11) In order to prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, prevent reduced recovery which might result from the drilling of too few wells, and to otherwise prevent waste and protect correlative rights, temporary special rules and regulations providing for 80-acre spacing units should be promulgated for said pool.

(12) At the time of the hearing, the applicant requested that the temporary pool rules contain a requirement for stand-up 80-acre proration units.

(13) The applicant presented no evidence which would indicate that stand-up 80-acre proration units are necessary for orderly development of the subject pool.

(14) The applicant's request for stand-up 80-acre proration units should not be approved.

(15) The temporary special rules and regulations should provide for designated well locations such that a well be located within 150 feet of the center of either governmental quarter-quarter section or lot in order to assure orderly development of the pool and protect correlative rights.

(16) At the request of the applicant temporary special rules and regulations for the subject pool should be established for a two-year period in order to allow the operators in the subject pool the opportunity to gather sufficient reservoir information to show that an 80-acre unit in the area can be efficiently and economically drained and developed by one well.

(17) This case should therefore be reopened at an examiner hearing in September, 1993 at which time the operators in the subject pool should be prepared to appear and show cause why the temporary special pool rules for the Milnesand-Abo Pool should not be rescinded.

IT IS THEREFORE ORDERED THAT:

(1) Temporary Special Rules and Regulations for the Milnesand-Abo Pool, Lea and Roosevelt Counties, New Mexico, as previously created and defined by Division Order No. R-2946, dated August 18, 1965, are hereby promulgated as follows:

**TEMPORARY SPECIAL RULES AND REGULATIONS
FOR THE
MILNESAND-ABO POOL**

RULE 1: Each well completed or recompleted in the Milnesand-Abo Pool or in the Abo formation within one mile thereof, and not nearer to or within the limits of another Abo 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 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 filed for a non-standard unit comprising a governmental quarter-quarter section or lot, or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States Public Land Surveys. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no offset operator has entered an objection to the formation of the non-standard unit within thirty days after the Director has received an application.

RULE 4: Each well shall be located within 150 feet of the center of a governmental quarter-quarter section or lot.

RULE 5: The Division Director may grant an exception to the requirements of Rule 4 without hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail, and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within twenty days after the Director has received the application.

RULE 6: A standard proration unit (79 through 81 acres) shall be subject to an 80-acre depth-bracket allowable of 310 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.

(2) The locations of all wells presently drilling to or completed in the Milnesand-Abo Pool or in the Abo formation within one mile thereof are hereby approved; the operator of any well having an unorthodox location shall notify the Hobbs District Office of the Division in writing of the name and location of the well within thirty days from the date of this order.

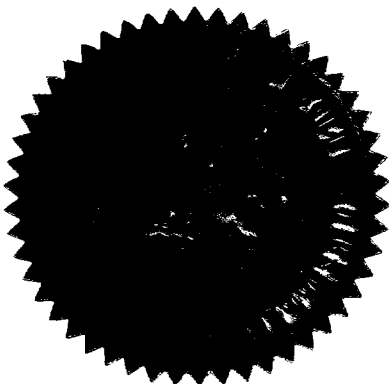
(3) Pursuant to Paragraph A of Section 70-2-18, NMSA (1978), contained in Chapter 271, Laws of 1969, existing wells in the Milnesand-Abo Pool shall have dedicated thereto 80 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 80 acres to a well or to obtain a non-standard unit approved by the Division within sixty days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said sixty-day limitation, each well presently drilling to or completed in the Milnesand-Abo Pool or in the Abo formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

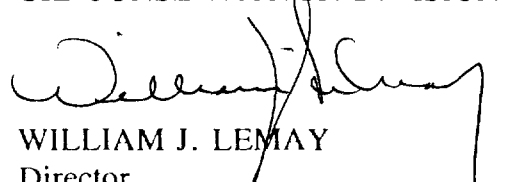
(4) Unless called earlier upon the motion of the Division, this case shall be reopened at an examiner hearing in September, 1993, at which time the operators in the subject pool should be prepared to appear and show cause why the Temporary Special Pool Rules for the Milnesand-Abo Pool should not be rescinded and said pool not be developed on 40-acre spacing units.

(5) 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

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