

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



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August 9, 1993

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Attorneys at Law
P. O. Box 2208
Santa Fe, New Mexico 87504

RE: CASE NO. 10543
ORDER NO. R-9740-A

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Sally Leichte
Sally Leichte
Administrative Secretary

cc: BLM Carlsbad Office

**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. 10543 (Reopened)
Order No. R-9740-A**

**APPLICATION OF YATES PETROLEUM
CORPORATION FOR AN UNORTHODOX GAS
WELL LOCATION AND SIMULTANEOUS
DEDICATION, EDDY COUNT, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on June 17 and July 29, 1993, at Santa Fe, New Mexico, before Examiners David R. Catanach and Michael E. Stogner, respectively.

NOW, on this 9th day of August, 1993, 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 Order No. R-9740, issued in Case No. 10543 on October 13, 1992, the Division authorized Yates Petroleum Corporation to drill its Irish Hills "KW" State Well No. 3 at an unorthodox gas well location 660 feet from the North and East lines (Unit A) of Section 2, Township 19 South, Range 24 East, NMPM, Eddy County, New Mexico, to test all formations and/or pools developed on 320-acre spacing. Order No. R-9704 also denied the request of the applicant to simultaneously dedicate Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of Section 2 to the Irish Hills "KW" State Well No. 3 and to its existing Irish Hills "KW" State Well No. 2 located at a standard gas well location 1980 feet from the North and East lines (Unit G) of Section 2, in the Penasco Draw-Permo Pennsylvanian Gas Pool.

(3) Applicant's request for simultaneous dedication was denied pursuant to Division Memorandum dated August 3, 1990 regarding Rule 104 (C)(II) of the General Rules and Regulations, which in part states that "Applications for additional wells on existing proration units will be approved only on the understanding that upon completion of the well the operator shall elect which well will be produced and which will be abandoned. Application to produce both wells will be approved only after notice and hearing and upon compelling evidence that the applicant's correlative rights will be impaired unless both wells are produced".

(4) Finding No. (14) of Order No. R-9740 stated that "The applicant, through its evidence and testimony in this case, did not demonstrate that its correlative rights would be impaired unless both of the subject wells are produced".

(5) The applicant, Yates Petroleum Corporation, seeks to reopen this matter in order to present new evidence to support its request to simultaneously dedicate the N/2 equivalent of Section 2 to the Irish Hills "KW" State Well Nos. 2 and 3 in the Penasco Draw-Permo Pennsylvanian Gas Pool.

(6) This case was heard on June 17, 1993 and was subsequently taken under advisement by the Examiner.

(7) Subsequent to the hearing and prior to the issuance of an order, it was discovered that adequate notice of the application had not been given by the applicant.

(8) The case was reopened and heard on July 29, 1993, at which time the applicant submitted evidence regarding notice. At that time the case was taken under advisement.

(9) The evidence presented by the applicant indicates that the subject well was spudded on November 1, 1992 and was drilled to a depth sufficient to test the Morrow formation. Testimony further indicates that the Morrow formation in the subject well subsequently tested non-commercial.

(10) In March, 1993, the subject well was tested in the Penasco Draw-Permo Pennsylvanian Gas Pool at an initial producing rate of approximately 122 MCF gas per day.

(11) As of December, 1992, the Irish Hills "KW" State Well No. 2 has cumulatively produced approximately 310 MMCFG and 1,900 barrels of condensate from the Penasco Draw-Permo Pennsylvanian Gas Pool. The current producing rate of the Irish Hills "KW" State Well No. 3 is approximately 60 MCFGD.

(12) Division records indicate that there are currently 17 wells producing from the subject pool. Of the 17 wells, the applicant operates 14 while the remaining 3 are operated by two other operators.

(13) The only directly offsetting production in the Penasco Draw-Permo Pennsylvanian Pool occurs to the east in Section 1 from the applicant's SRC "KZ" State Well No. 6 located in Unit C.

(14) According to applicant's geologic evidence and testimony, there is good potential for Permo-Pennsylvanian production to the north in Section 35, to the northeast in Section 36, to the southeast in Section 12 and to the south in Section 11. There is marginal potential for Permo-Pennsylvanian production to the west in Section 3.

(15) Geologic evidence further indicates that the Irish Hills "KW" State Well No. 3 penetrated the Permo-Pennsylvanian formation at a geologic transition zone between the bank facies and the basin fill facies.

(16) The applicant presented engineering evidence and testimony which indicates that the projected ultimate gas recovery from the Irish Hills "KW" State Well No. 3 is approximately 200 MMCF. Volumetric calculations indicate that this amount of ultimate recovery corresponds to a drainage area of approximately 45 acres.

(17) Further engineering evidence and testimony indicate that the projected ultimate gas recovery from the Irish Hills "KW" State Well No. 2 is approximately 447 MMCF. Volumetric calculations indicate that this amount of ultimate recovery corresponds to a drainage area of approximately 77 acres.

(18) The drainage areas of the Irish Hills "KW" State Well Nos. 2 and 3 do not overlap.

(19) The evidence presented in this case indicates that both of the subject wells are necessary in order to effectively drain and develop the Penasco Draw-Permo Pennsylvanian Gas Pool within the N/2 of Section 2.

(20) The applicant has adequately demonstrated that unless both wells are produced, its correlative rights will be violated by virtue of not being able to recover all of its gas reserves within the N/2 of Section 2.

(21) No offset operator and/or interest owner appeared at the hearing in opposition to the application.

(22) Approval of the subject application will allow the applicant to effectively drain and develop the gas reserves within the Penasco Draw-Permo Pennsylvanian Gas Pool underlying the proposed proration unit, thereby preventing waste, and will not violate correlative rights.

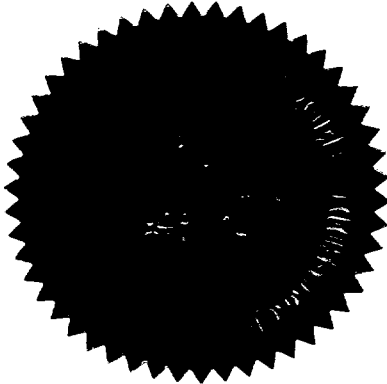
IT IS THEREFORE ORDERED THAT:

(1) The applicant, Yates Petroleum Corporation, is hereby authorized to simultaneously dedicate Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of Section 2, Township 19 South, Range 24 East, NMPM, Eddy County, New Mexico, to the existing Irish Hills "KW" State Well No. 3 located at an unorthodox gas well location respectively 660 feet from the North and East lines (Unit A) of Section 2, and to the existing Irish Hills "KW" State Well No. 2 located at a standard gas well location 1980 feet from the North and East lines (Unit G) of Section 2, in the Penasco Draw-Permo Pennsylvanian Gas Pool.

(2) The applicant is further authorized to concurrently produce the Irish Hills "KW" State Well Nos. 2 and 3.

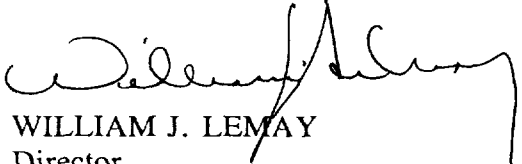
(3) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



S E A L

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


WILLIAM J. LEMAY
Director