

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY



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SANTA FE, NEW MEXICO 87504
(505) 827-5800

August 31, 1993

CAMBELL, CARR, BERGE
& SHERIDAN
Attorneys at Law
P. O. Box 2208
Santa Fe, New Mexico 87504

RE: CASE NO. 10639
ORDER NO. R-9766-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 Farmington Office
Brian Davis O BLM
OCD Aztec Office

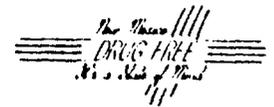


STATE OF NEW MEXICO

ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

AZTEC DISTRICT OFFICE



RECEIVED

93 FEB 11 AM 9 07

BRUCE KING
GOVERNOR

ANITA LOCKWOOD
CABINET SECRETARY

1000 RIO BRAZOS ROAD
AZTEC, NEW MEXICO 87410
(505) 334-6178

February 9, 1993

Mr. James C. Lister
Senior Geologist
American Hunter Exploration Ltd.
410 Seventeenth St., Suite 1220
Denver, Co. 80202

RE: Retirement of Overproduction for the Jicarilla 3F #1 well, F-3-27N-1W

Dear Jim:

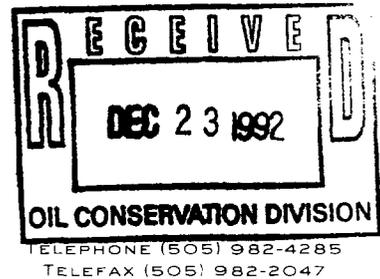
This letter serves as notice that the required overproduction penalty has been satisfied and the well can return to it's assigned allowable of 37 BOD and 30 MCFD. It is my understanding that the Right-Of-Way has been obtained and construction has started on your pipeline. We will adjust the well's allowable once it is tied in and ready to produce into the line. In your letter of January 28, you indicated that it would be helpful to resolve this matter as soon as possible. I have not been able to reconcile the 311 BO and 378 MCF difference between your records and ours, but the difference isn't significant enough to continue to demand that the well remain shut-in. In the mean time you and I will work together and resolve the difference using existing records.

If you have any questions, please contact me.

Your's truly,

Ernie Busch
District Geologist

xc: Robert G. Stovall, OCD General Council
Larry Van Ryan, OCD Chief Engineer
Frank Chavez, District 3 Supervisor
Shirley Mondy, BLM Albuquerque
Duanne Spencer, BLM Farmington
J. Howard Anderson, Canadian Hunter



KELLAHIN AND KELLAHIN
ATTORNEYS AT LAW
EL PATIO BUILDING
117 NORTH GUADALUPE
POST OFFICE BOX 2265
SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

December 23, 1992

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
310 Old Santa Fe Trail
Room 219
Santa Fe, New Mexico 87501

HAND DELIVERED

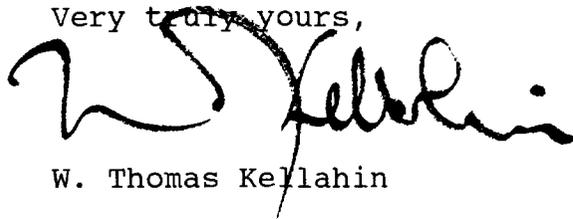
RE: Application of American Hunter
Exploration, Inc. for Authorization
to Flare Gas as Exception to Rule
306 and for the Establishment of
Special Allowable Rates, Rio
Arriba County, New Mexico
NMOCD Case No. 10639

Dear Mr. Stogner:

On behalf of Benson-Montin-Greer Drilling Corporation please find enclosed our Proposed Order of the Division for the above-referenced case. We have also enclosed a floppy disk with this order on it for your use.

If you have questions or require anything else with regard to this matter, please call.

Very truly yours,



W. Thomas Kellahin

WTK/jcl

Enclosures

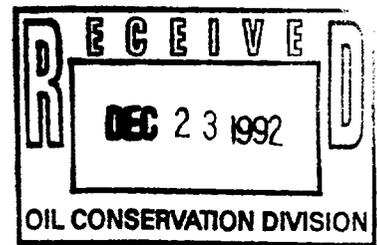
xc: With Enclosures

William F. Carr, Esq.

Benson-Montin-Greer Drilling Corp.

Ernest Bush - OCD Aztec Office

ltr1221.625



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. 10639
ORDER NO. R-9766-A

APPLICATION OF AMERICAN HUNTER
EXPLORATION, LTD FOR AUTHORIZATION
TO FLARE GAS AS EXCEPTION TO RULE 306
AND FOR THE ESTABLISHMENT OF
SPECIAL ALLOWABLE RATES,
RIO ARRIBA COUNTY, NEW MEXICO.

BENSON-MONTIN-GREER DRILLING CORP.'S
PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 17, 1992, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of December, 1992, the Division Director, having considered the testimony, the record and the recommendation 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) American Hunter Exploration, Ltd. ("American Hunter") seeks an exception to the No-Flare Provisions of Division General Rule 306 for its Jicarilla "3F" Well No. 1 ("Jicarilla 3F Well") located 1845 feet from the North

line and 1900 feet from the West line (Unit F) of Section 3, Township 27 North, Range 1 West, NMPM, Rio Arriba County, New Mexico commencing on January 1, 1993 and continuing for a maximum period of six months during which period said well shall be authorized to produce a maximum rate of 800 barrels of oil per day or 800 MCF of gas per day, whichever is less, up to a maximum cumulative volume of 146 MMCF of gas flared or 146 thousand barrels of oil produced while flaring gas.

(3) The Jicarilla 3F Well is dedicated to a 640-acre oil spacing and proration unit consisting of all of said Section 3 and is governed by rules for the West Puerto Chiquito-Mancos Oil Pool.

(4) Benson-Montin-Greer Drilling Corp. ("BMG") is the operator of Sections 9, 10, 15 and 16, T27N, R1W, immediately to the southwest of the Jicarilla 3F Well and appeared in this case in opposition to the applicant.

(5) The Division's Aztec District Office appeared in this case in opposition to the applicant.

(6) The Bureau of Land Management ("BLM") appeared in this case in opposition to the applicant.

(7) Division General Rule 306 provides that the Division " may grant an exception when the same appears reasonably necessary to protect correlative rights, prevent waste, or prevent undue hardships on the applicant." (emphasis added).

(8) The Jicarilla 3F Well was completed in December, 1991.

(9) The Division previously granted a 60-day testing exception to the No-Flare Provisions of Division General Rule 306 for the Jicarilla 3F Well ending on April 24, 1992.

(10) Then by Order R-9766 effective November 12, 1992, the Division again granted another exception to the No-Flare Provisions of Division General Rule 306 for the

Jicarilla 3F Well this time approving a six-month testing period beginning April, 1992 and ending September, 1992.

(11) Now American Hunter seeks yet another exception to the No-Flare Provisions of Division General Rule 306 once again for purposes of conducting a test.

(12) American Hunter testified that approval of the application:

(a) would cause the waste of the flared gas;

(b) would not increase ultimate oil recovery from the pool;

(c) would potentially provide reservoir data but that data could also be obtained after the gas gathering system was constructed;

(d) would maintain "cash flow" for the applicant but would not cause an undue hardship on the applicant if denied.

(13) In addition to approval from the Division, American Hunter is required to obtain approval from the BLM.

(14) By Decision dated December 15, 1992, the BLM has acted upon the American Hunter application and has approved the request subject the following conditions:

(a) Government, Tribal, and Agency approvals required for the construction of the pipeline have been obtained.

(b) A contract with a pipeline construction company has been obtained and an estimated completion date for the pipeline can be furnished.

(c) Submit a detailed test plan including test rates, proposed duration, and objectives/goals for the test period.

(d) Testing will be discontinued when the objectives/goals have been met.

(e) Testing does not commence until physical pipeline construction has begun.

(f) Correlative rights issues with offset lessees are resolved.

(15) As of the date of hearing, while American Hunter had agreed to all of the BLM conditions, it had not yet completely satisfied any of the six conditions.

(16) None of the objectives/goals expressed by American Hunter are immediately necessary and there were no compelling reasons expressed to justify flaring the gas to conduct the tests now rather than have the tests conducted when the gas can be produced into a pipeline and sold.

(17) The spacing unit dedicated to the Jicarilla 3F Well is not being subjected to offset drainage and therefore denial of the application as requested will only postpone the objectives/goals of American Hunter.

(18) Approval of the American Hunter application but with limitations and conditions consistent with those established by the BLM will not adversely affect the correlative rights of American Hunter.

(19) American Hunter has not resolved correlative rights issues with BMG, the offset lessee.

(20) Based upon prior testimony of American Hunter in Case 10506 and Case 10534, the Division has concluded that the drive mechanism for the pool is gravity drainage. See Finding (13) Order R-9735.

(21) If the gas is withdrawn too fast from the reservoir then gravity drainage will not have an opportunity to properly function resulting in a reduction in ultimate recovery because the reservoir drive mechanism will revert to solution gas drive.

(22) Prior testimony by American Hunter in Case 10534 demonstrates that the Jicarilla 3F Well is on structural strike with the BMG sections and that there is approximately 20 degrees of updip slope from the Jicarilla 3F Well to American Hunter's Jicarilla 2A Well which was proposed as a gas injection well for its gas injection pressure maintenance project approved by Division Order R-9735. See Transcript page 27, Case 10534.

(23) In Case 10534 American Hunter sought and obtained approval of the Division to produced gas from the Jicarilla 3F well and reinject that gas into the Jicarilla 2A Well as a one well pressure maintenance project in order to conserve the reservoir energy and improve ultimate oil recovery.

(24) BMG's position in the reservoir in relation to the Jicarilla 3F Well is such that both American Hunter and BMG will benefit from gravity drainage with corresponding increases in ultimate oil recoveries provided the gas energy is not wasted.

(25) Now, American Hunter argues it can vent the gas without causing damage to the reservoir. Had this simply been a solution gas drive reservoir, then the wasting of gas by venting would not have had an adverse effect upon ultimate recovery nor created a risk of impairing the correlative rights of BMG. But when the maximum volume of oil recovery can be achieved only with gravity drainage, then the waste of gas by venting it will reduce ultimate recovery without obtaining any economic benefit, cause waste and may impair the correlative rights of all owners in the pool.

(26) American Hunter contends that waste will not occur and correlative rights will not be impaired because it is only venting that volume of gas which it otherwise could produce and sell if it had a pipeline by which to do so.

(27) Despite the contentions of American Hunter, the production of gas for sale is significantly different from the waste of the same volume of gas by venting.

(28) BMG is a working interest owner in the same common source of supply which is currently being produced by the Jicarilla 3F Well and should have the right to produce and sell the reservoir gas which American Hunter wants to vent and waste.

(29) In addition, BMG's correlative rights will be impaired by approval of the application as requested by American Hunter, because it will allow American Hunter to obtain a competitive advantage by the granting of a special exception from the rule governing production from the pool.

(30) Although American Hunter has represented that the Jicarilla Tribe wants the gas wasted so that the oil can be produced, it is the statutory obligation of the Division to prevent waste regardless of the desires of some of the current owners of a right to produce the hydrocarbons from a portion of the pool.

(31) The Division cannot abdicate its statutory responsibilities to protect all of the interest owners in the pool even if some of those owners consent to waste a valuable resource.

(32) The gas does not belong to the Tribe. It simply has an opportunity to produce its share of recoverable hydrocarbons but must do so without waste and without impairing the correlative rights of other owners in the same common source of supply who have the same opportunity.

(33) BMG contends that the Jicarilla Tribe is the common lessor to both BMG and American Hunter but has obtained economic advantages from American Hunter which it does not have with BMG. Further, BMG contends that the Tribe seeks to maintain that advantage by opposing BMG in its efforts to drill wells in Section 9 and Section 10 while seeking to aid American Hunter in its

efforts to vent gas and continue with oil production from wells located in that portion of the pool in which the Tribe has a larger interest in production.

(34) The Division's Aztec District Office and BMG both support the action taken by the BLM and urged the Division to take the same action.

(35) American Hunter has failed to satisfy the conditions for approval set forth in Division General Rule 306.

(36) The flaring of gas in the manner proposed by American Hunter is not reasonably necessary in this case and should be approved only upon satisfaction of the same conditions imposed by the BLM.

(37) The conditions of approval established by the BLM are fair and reasonable and have been accepted by American Hunter.

(38) American Hunter failed to explain why the Division should not enter an order consistent with the action taken by the BLM.

IT IS THEREFORE ORDERED THAT:

(1) The application of American Hunter Exploration Ltd. for an exception to Division General Rule 306 which prohibits the flaring of natural gas is granted for its Jicarilla 3F Well No 1, Unit F, Section 3, T27N, R1W, NMPM, to commence concurrently with the satisfaction of all conditions set forth by the Bureau of Land Management in its Decision dated December 15, 1992 in this matter and for a period of time and at rates consistent with the BLM requirements but in no event longer than 6 months nor in excess of 800 barrels of oil per day or 800 mcf of gas per day or in excess of a cumulative volume of 146 MMCF of gas flared or 146 thousand barrels of oil produced while flaring gas.

NMOCD Case No 10639
Order No. R-9766-A
Page 8

PROVIDED THAT, that during the time of this exception American Hunter shall conduct the tests on the subject well which are approved by the OCD District Supervisor,

PROVIDED FURTHER THAT, that American Hunter shall provide copies of any testing information and data to the OCD, the BLM and BMG.

(2) That the Jicarilla 3F Well shall continue to accumulate overproduction in accordance with the Division General Rules and the Rules for the West Puerto Chiquito-Mancos Oil Pool.

(3) 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

S E A L



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Farmington Resource Area
1235 La Plata Highway
Farmington, New Mexico 87401



IN REPLY REFER TO:

DEC. 16 1992

BEFORE THE OIL CONSERVATION COMMISSION STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 APPLICATION OF AMERICAN HUNTER EXPLORATION)
 FOR AUTHORIZATION TO FLARE GAS AS AN) CASE 10639
 EXCEPTION TO RULE 306 AND FOR THE)
 ESTABLISHMENT OF SPECIAL ALLOWABLE RATES,)
 RIO ARRIBA COUNTY, NEW MEXICO.)

UPON THE APPLICATION OF THE OIL CONSERVATION)
 DIVISION)

Bureau of Land Management, Albuquerque District, Farmington Resource Area

Hearing Statement

The Authorized Officer (AO) from the Farmington Bureau of Land Management Office would like to include the following into the hearing record.

The subject Application seeks permission to produce without venting restrictions while gas sales line construction is proceeding to "gather data to determine if gravity drainage is an effective depletion mechanism". The Farmington BLM office granted a six month testing period with unrestricted venting for this very reason. During the six month testing phase, substantial volumes of oil were produced and significant volumes of natural gas were vented. Additional testing with no restrictions would generate the following concerns:

- A. Our trust obligation regarding Indian minerals requires that we make every effort to maximize recovery and prevent waste of Indian minerals.
- B. Correlative rights of offset lessees.
- C. What additional data would extended testing provide?
- D. Premature depletion of the driving mechanism of the reservoir.

In order for the Farmington BLM to consider approval of additional production without venting restrictions, the following conditions must be met:

- 1. Government, Tribal, and Agency approvals required for the construction of the pipeline have been obtained.
- 2. A contract with a pipeline construction company has been obtained and an estimated completion date for the pipeline can be furnished.
- 3. American Hunter Exploration submits a detailed test plan including test rates, proposed duration, and objectives/goals for the test period.
- 4. Testing will be discontinued when the objectives/goals have been met.
- 5. Testing does not commence until physical pipeline construction has begun.

6. Correlative rights of offset lessees must not be affected by the test.

The present venting restriction of 30 MCF per day or 900 MCF per month plus or minus 10 percent will remain in effect until alternate rates are approved by the Farmington BLM office.

Correspondence containing the above information was sent to American Hunter via certified mail on December 15, 1992. The correspondence in its entirety was transmitted via facsimile to the Denver Office of American Hunter to the attention of Mr. Jim Lister on the same date at 2:26 PM.

Courtesy copies of the correspondence were sent to the individuals and entities listed below.

Sincerely,



Mike Pool
Area Manager

cc:

Bureau of Indian Affairs
Jicarilla Agency
P. O. Box 167
Dulce, NM 87528

Mr. Thurman Velarde
Jicarilla Indian Tribe
P. O. Box 507
Dulce, NM 87528

New Mexico Oil Conservation Division
1000 Rio Brazos Road
Aztec, NM 87410

New Mexico Oil Conservation Division
310 Old Santa Fe Trail, Room 206
Santa Fe, NM 87503

William F Carr
Jefferson Place Suite 1
110 North Guadalupe
P. O. Box 2208
Santa Fe, NM 87504-2208

Bureau of Land Management
New Mexico State Office
P. O. Box 27115 - NM-922
Santa Fe, NM 87502-0115

Bureau of Land Management
Albuquerque District Office
435 Montano Road, NE - NM-015
Albuquerque, NM 87107

NORDHAUS HALTOM TAYLOR
TARADASH & FRYE

ATTORNEYS AT LAW

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LESTER K. TAYLOR
ALAN R. TARADASH
PAUL E. FRYE
WAYNE H. BLADH
MARCIA L. GREEN, P.C.

LEE BERGEN
TERESA ISABEL LEGER
CYNTHIA A. KIERSNOWSKI
KATHARINE S. MILLER
DANIEL F. ORTEGA

Reply to Santa Fe Office

November 25, 1992

William J. LeMay
Oil Conservation Division
State Land Office Bldg.
310 Old Santa Fe Trail
Room 219
Santa Fe, New Mexico 87501

Case 10639-1115
RECEIVED
NOV 26 1992
OIL CONSERVATION DIVISION

**Re: In the Matter of the Application of American Hunter
Exploration, Ltd. for an Exception to the Provisions
of the Division's No Flare Rule 306 and for the Establishment
of Special Allowable Rates, Rio Arriba County, New Mexico**

Hearing Date, December 3, 1992

Dear Mr. LeMay:

This firm represents the Jicarilla Apache Tribe. The Tribe is party to the Minerals Development Agreement (entered into pursuant to the 1982 Indian Minerals Development Act) which authorized American Hunter Exploration, Ltd. to drill the Jicarilla 3F-1 well located in the Southeast Quarter Northwest Quarter of Section 3, Township 27 North, Range 1 West, NMPM, Rio Arriba County, New Mexico, within the Jicarilla Apache Reservation.

This letter is not an entry of appearance by the Tribe in this proceeding, nor is it an indication that the Tribe submits itself to the jurisdiction of the Oil Conservation Division. The Tribe submits this letter solely for the purpose of informing the Division of the Tribe's position concerning the application identified above, as a courtesy to the Division and to carry out the government-to-government relationship existing between the State of New Mexico and the Jicarilla Apache Tribe.

American Hunter has requested the consent of the Jicarilla Apache Tribe to flare gas from the Jicarilla 3F-1 well pending construction of a gas marketing pipeline to connect that well with the Northwest Pipeline Corporation system. The Jicarilla Apache Tribal

NORDHAUS HALTOM TAYLOR
TARADASH & FRYE

ATTORNEYS AT LAW

William J. LeMay
November 25, 1992
Page 2

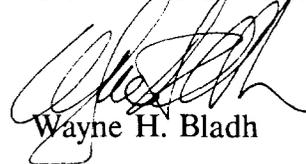
Re: American Hunter/Flaring

Council, on November 5, 1992, voted to support American Hunter's application for permission to flare gas from the Jicarilla 3F-1 well on the conditions that American Hunter expedite construction of the proposed gas marketing pipeline, and that flaring not continue past June 1, 1993 at the latest. The Tribal Council further authorized this law firm to inform the Oil Conservation Division and the Bureau of Land Management of this action.

If you have any questions concerning the Tribe's position on the pending application to flare gas, please do not hesitate to contact me at the Santa Fe office of this firm.

Sincerely,

NORDHAUS, HALTOM, TAYLOR,
TARADASH & FRYE



Wayne H. Bladh

WHB:mh

cc: Mike Pool, Area Manager
Bureau of Land Management
Farmington Resource Area
1235 La Plata Highway
Farmington, NM 87401

Darrell Tafoya
Jicarilla Agency Realty Office
Bureau of Indian Affairs
P.O. Box 167
Dulce, NM 87528

William F. Carr
P.O. Box 2208
Santa Fe, NM 87504

NORDHAUS HALTOM TAYLOR
TARADASH & FRYE

ATTORNEYS AT LAW

William J. LeMay
November 25, 1992
Page 3

Re: American Hunter/Flaring

Thurman Velarde
Oil and Gas Administrator
Jicarilla Apache Tribe
P.O. Box 507
Dulce, NM 87528

James C. Lister
Senior Geologist
American Hunter Exploration, Ltd.
410 Seventeenth St., Ste. 1220
Denver, Colorado 80202