

**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. 10823
Order No. R-9992**

**APPLICATION OF NEARBURG PRODUCING
COMPANY FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 9, 1993, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 18th day of October, 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) The applicant, Nearburg Producing Company, seeks an order pooling all mineral interests from the surface to the base of the Cisco/Canyon formation underlying the W/2 of Section 10, Township 22 South, Range 24 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre oil and gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, including the Indian Basin-Upper Pennsylvanian Associated Pool. Said unit is to be dedicated to the applicant's proposed Red Walt "10" Federal Well No. 1 to be drilled at a standard location for the Indian Basin-Upper Pennsylvanian Associated Pool 990 feet from the North and West lines (Unit D) of Section 10.

(3) The evidence presented indicates that Section 10 is comprised of the four following described Federal leases:

| <u>LEASE NUMBER</u> | <u>LEASE DESCRIPTION</u> |
|---------------------|-------------------------------|
| NM-90505 | NW/4 NW/4 |
| NM-53953 | NE/4 NE/4 |
| NM-78213 | S/2 N/2, NE/4 NW/4, NW/4 NE/4 |
| NM-53219 | S/2 |

(4) Yates Petroleum Corporation is the lessee of the three Federal leases within the N/2 of Section 10. These leases are jointly owned by Yates Petroleum Corporation, Yates Drilling Company, Abo Petroleum Corporation and Myco Industries, Inc. Nearburg Producing Company is the lessee and owner of the Federal lease comprising the S/2 of Section 10.

(5) Yates Petroleum Corporation (Yates) appeared at the hearing in opposition to the application.

(6) The primary target within the proposed well is the Cisco/Canyon formation within the Indian Basin-Upper Pennsylvanian Associated Pool.

(7) The applicant seeks authority to develop Section 10 as proposed based upon its contention that:

- a) due to the presence of an oil-water contact, the E/2 of Section 10 should be wet and non-productive in the Indian Basin-Upper Pennsylvanian Associated Pool;
- b) the most geologically favorable location in Section 10 to drill the initial well is within the NW/4; and,
- c) the W/2 of Section 10, comprising the only productive acreage in Section 10 within the subject pool, should be developed as a standard spacing and proration unit.

(8) Nearburg testified that from a geologic standpoint, it considers drilling the initial well in the SW/4 of Section 10 too risky.

(9) Yates opposes the formation of a W/2 spacing unit and proposes that two standard spacing units comprising the N/2 and S/2 of Section 10 be formed, and that Yates and Nearburg drill their own respective wells in the NW/4 and SW/4, respectively.

(10) Evidence presented by Yates indicates that it has filed an APD (Application to Drill) for its proposed Atom "ANT" Federal Com Well No. 1 to be located 990 feet from the North and West lines (Unit D) of Section 10.

(11) Yates further contends that approval of the subject application may violate its correlative rights by allowing Nearburg to participate in a well drilled on Yates' acreage which, according to both parties' evidence, contains the best portion of the reservoir in Section 10.

(12) The geologic evidence presented by Yates and Nearburg in this case is in general agreement that the oil-water contact within the reservoir occurs at a subsea depth of approximately -4,050 feet, that the oil-water contact traverses Section 10 generally in a north/northeast-south/southwest direction, and that the optimum drill site in Section 10 is within the NW/4.

(13) The parties are in general disagreement as to the exact location of the oil-water contact within Section 10. According to Yates' geologic interpretation, the N/2 and SW/4 of Section 10 are potentially productive while the majority of the SE/4 lies below the oil-water contact and should be non-productive. According to Nearburg's geologic interpretation, the NW/4 and the majority of the SW/4 are above the oil-water contact and therefore potentially productive, while the E/2 is below the oil-water contact and non-productive.

(14) Both of the geologic interpretations are based upon well control in this area.

(15) Prior to further development of the Indian Basin-Upper Pennsylvanian Associated Pool in Section 10, it is difficult to ascertain which parties' geologic interpretation of the reservoir is more accurate.

(16) The Indian Basin-Upper Pennsylvanian Associated Pool was created by Division Order No. R-9922 issued in Case No. 10748 on July 6, 1993.

(17) The Indian Basin-Upper Pennsylvanian Associated Pool is currently spaced on 320 acres; however, according to evidence and testimony presented by Yates in Case No. 10748, an oil well should be capable of draining an area of approximately 80-100 acres.

(18) In order to effectively drain the W/2, at least one well in both the NW/4 and SW/4 of Section 10 will have to be drilled.

(19) Although somewhat more risky than drilling in the NW/4, both parties' geologic evidence indicate that a well drilled in the SW/4 of Section 10 should be productive in the Indian Basin-Upper Pennsylvanian Associated Pool.

(20) The geologic evidence currently available does not conclusively demonstrate that the E/2 of Section 10 is non-productive in the Indian Basin-Upper Pennsylvanian Associated Pool or that such acreage will not contribute production to a well drilled in the NW/4 and/or SW/4 of Section 10.

(21) Both parties are fully able to form voluntary standard proration units within Section 10.

(22) Yates' proposal to allow each operator the opportunity to drill its own acreage in Section 10 represents the best method of developing the oil and gas reserves underlying the subject acreage, assures that no operator gains an unfair advantage, and assures that the correlative rights of both operators are protected.

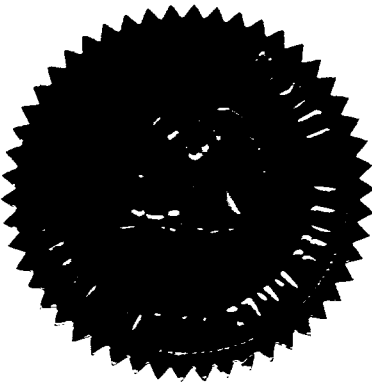
(23) The application of Nearburg Producing Company for compulsory pooling should be denied.

IT IS THEREFORE ORDERED THAT:

(1) The application of Nearburg Producing Company for an order pooling all mineral interests from the surface to the base of the Cisco/Canyon formation underlying the W/2 of Section 10, Township 22 South, Range 24 East, NMPM, Eddy County, New Mexico, forming a standard 320-acre oil and gas spacing and proration unit for any and all formations and/or pools developed on 320-acre spacing within said vertical extent, including the Undesignated Indian Basin-Upper Pennsylvanian Associated Pool, is hereby denied.

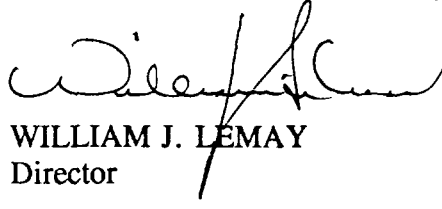
(2) Jurisdiction of this cause is hereby retained for the entry of such further orders as the Division may deem necessary.

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