

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF NEW MEXICO FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 9764 De Novo
CASE NO. 9765 De Novo
Order No. R-9037-A

APPLICATION OF MERIDIAN OIL, INC. FOR A
HIGHLY-DEVIATED DIRECTIONAL DRILLING PILOT
PROJECT, UNORTHODOX GAS WELL LOCATION AND
AN EXCEPTION TO RULE 2(b) OF THE SPECIAL
RULES GOVERNING THE BLANCO-MESAVERDE POOL,
SAN JUAN COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 A.M. on February 15, 1990, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 22nd day of March, 1990, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Commission has jurisdiction of this cause and the subject matter thereof.

(2) Commission case No. 9764 (de novo) and 9765 (de novo) were consolidated at the time of the hearing for the purpose of testimony, and upon motion of the applicant the records of cases 9764 and 9765 heard before Examiner David R. Catanach on September 20, 1989, were incorporated into the record in this case.

(3) The applicant has applied to the Commission for de novo hearing solely on the question of the allowable to be assigned to the proration unit in each case on which the applicant proposes to drill a highly deviated well.

(4) Based upon the record made before the examiner and the additional evidence presented before the Commission, Finding paragraphs (1) through (12) and (16) through (19) of Order R-9037 are incorporated herein by reference and adopted as findings of the Commission.

(5) The applicant proposed in this hearing that the deliverability used to calculate the allowable for the proration unit be determined by multiplying the deliverability of the proposed highly-deviated wellbore by two, with the maximum allowable for the proration unit being no greater than the highest allowable for any proration unit in the Blanco-Mesa Verde Pool with the same acreage factor.

(6) Amoco Production Company appeared in opposition to the applicant, opposing only the proposed method of determining deliverability for the unit. Amoco proposed that the deliverability be determined in a similar manner to any other proration unit: by adding the deliverability of two of three wells in the proration unit.

(7) The procedure utilized by the Division to determine deliverability for three vertical well proration units in the Blanco-Mesa Verde Pool is to allow the operator to take the deliverability of the better of the two wells in one of the quarter sections and add it to the deliverability of the well in the other quarter section.

(8) The applicant presented evidence supporting the need for an incentive in the form of a higher allowable which would enable it to expend additional risk capital in the hopes of developing increased gas productivity from the proposed deviated well.

(9) Applicant's technical witnesses testified that the proposed highly-deviated wellbore was not likely to impair correlative rights of offset tracts because the theoretical drainage radius of the proposed well resembles a cylinder and would drain longitudinally through the entire proration unit instead of vertically.

(10) The applicant is the operator of unitized areas in the Blanco-Mesa Verde Pool in which it could have drilled the highly-deviated wells on proration units offset only by other unitized proration units, but it selected the subject proration unit because it is owned 100% by the applicant and does not require partnership approval for investment in the project and because the deviated well could replace an older less efficient well.

(11) Findings (13) through (15) of Division Order R-9037 were based upon a sound interpretation by the examiner of the existing rules regarding the determination of deliverabilities, but that reasoning did not provide an incentive for the applicant to undertake a pilot project which is considerably more expensive than conventional vertical drilling and which also offers the possibility of greater deliverability and ultimate recoveries of oil and gas.

(12) The applicant should be permitted to determine the deliverability factor for the proration unit by adding the deliverabilities of any two wells on the proration unit, in accordance with the options granted other operators in the field.

(13) Provided the proposed highly deviated wellbore produces from both quarter-sections within the proration unit, the operator should be permitted to add the deliverability of that well to the deliverability of either of the other wells

within the proration unit to determine the deliverability factor. If the proposed deviated well does not produce from both quarter-sections, then the deliverability factor should be determined in the conventional manner.

IT IS THEREFORE ORDERED THAT:

(1) Decretory paragraphs (1) through (7) of Oil Conservation Division Order R-9037 are incorporated herein by reference and adopted as a part of this order.

(2) The deliverability of the subject gas proration unit, for the purpose of calculating gas allowable, shall be determined as follows:

- (a) If the highly-deviated wellbore is completed in and produces from both quarter-sections in the proration unit, the sum of the deliverability of the deviated well plus the deliverability of either of the vertical wells shall be utilized; or
- (b) If the highly-deviated wellbore is not completed in and producing from both quarter-sections in the proration unit, the sum of the deliverability of the deviated well must be added to the deliverability of a vertical well in the other quarter section of the proration unit; or
- (c) Utilize the sum of the deliverabilities of the two existing vertical wellbores;

whichever method results in the higher calculated deliverability for the proration unit.

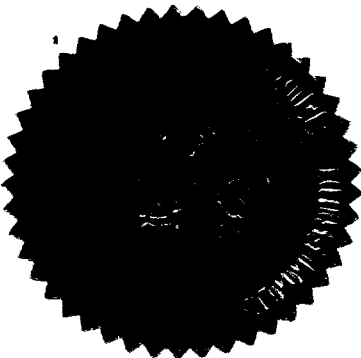
(3) Jurisdiction of this cause is retained for the entry of further orders as the Commission may deem necessary.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

WILLIAM R. HUMPHRIES, Member

William W. Weiss
WILLIAM W. WEISS, Member

William J. Lema
WILLIAM J. LEMAY, Chairman
& Secretary



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