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May 30, 1990

HAND-DELIVERED

Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87501

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MAY 30 1990

OIL CONSERVATION DIVISION

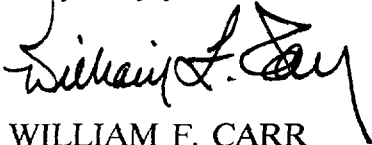
Re: Case No. 9854
Application of Stevens Operating Corporation for Pool Creation and Special
Pool Rules, Chaves County, New Mexico

Dear Mr. Stogner:

Pursuant to your request I am enclosing a copy of a proposed Order of the Division in the above-referenced case. This Order has been reviewed and approved by representatives of Stevens Operating Corporation and Yates Petroleum Corporation.

If you need anything further from the parties to proceed with your consideration of this matter, please advise.

Very truly yours,



WILLIAM F. CARR

WFC:mlh

Enclosure

cc w/enc.: Mr. Don Stevens

Ernest L. Carroll, Esq.
Post Office Drawer 239
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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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MAY 30 1990

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

Case No. 9854
Order No. R-9131-A

APPLICATION OF STEVENS OPERATING
CORPORATION FOR POOL CREATION AND
SPECIAL POOL RULES,
CHAVES COUNTY, NEW MEXICO.

PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of May, 1990, 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-9131 dated March 2, 1990, temporary Special Pool Rules and Regulations were promulgated for the Diablo-Fusselman Pool, Chaves County, New Mexico, establishing temporary 160-acre spacing and a gas/oil ratio limitation of 6500 cubic feet of gas per barrel of oil.

(3) Order No. R-9131 provided that Case No. 9854 be reopened in May, 1990, at which time the operators in the pool would appear and present evidence, testimony and recommendations regarding the proper spacing and most efficient rate of production for the Diablo-Fusselman Pool.

(4) Following the entry of Order No. R-9131, Stevens Operating Corporation filed an application seeking adoption of an administrative procedure for approval of horizontal drilling in the Fusselman formation in the Diablo-Fusselman Pool.

(5) Stevens Operating Corporation and Yates Petroleum Corporation are the only operators in the Diablo-Fusselman Pool and both operators appeared and presented testimony.

(6) The testimony of both parties to the hearing was an agreement that although substantial new data on this pool has been obtained during the ninety days since the adoption of temporary Pool Rules and Regulations by Order No. R-9131, additional information on this pool is needed and additional testing is necessary to determine what are the most efficient methods for development of this reservoir.

(7) The temporary rules adopted by Order R-9131 should be extended for an additional period of time and amended to enable the operators in the pool to develop additional data necessary to determine how to most efficiently produce this pool.

(8) To encourage additional development and to provide sufficient flexibility to the operators in the pool to develop additional information on this reservoir without impairing correlative rights the temporary Special Pool Rules and Regulations for the Diablo-Fusselman Pool should be amended to provide for:

- (a) 80-acre spacing;
- (b) A production limitation of 222 barrels of oil per day which is the standard depth bracket allowable for wells at this depth on 80-acre spacing; and
- (c) Well location requirements which require wells to be located no closer than 330 feet from the outer boundary of the proration unit.

(9) The temporary rules should adopt a procedure for administrative approval for the horizontal drilling of wells within the Fusselman formation, Diablo-Fusselman Pool.

(10) The amended temporary Special Pool Rules and Regulations promulgated for the Diablo-Fusselman Pool should remain in effect for a period of an additional four months in order to allow the operators in the pool to gather additional reservoir information to determine how the subject pool can most efficiently and economically be developed.

(11) This case should be reopened at an Examiner hearing in October, 1990 at which time the operators in the pool should be prepared to appear and present the data they have acquired and make recommendations to the Division for permanent pool rules.

IT IS THEREFORE ORDERED THAT:

(1) The temporary Special Rules and Regulations for the Diablo-Fusselman Oil Pool are hereby amended as follows:

**SPECIAL RULES AND REGULATIONS
FOR THE
DIABLO FUSSELMAN OIL POOL**

RULE 1. Each well completed or recompleted in the Diablo-Fusselman Oil Pool or in the Fusselman formation within one mile thereof, and not nearer to or within the limits of another designated Fusselman Pool, shall be spaced, drilled, operated, and produced in accordance with the special rules 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, being a legal subdivision of the United States Public Lands Survey. For purposes of these rules, a spacing or proration unit consisting of between 79 and 81 contiguous surface acres shall be considered a standard spacing or proration unit. No non-standard spacing or proration unit shall be authorized except after notice and hearing.

RULE 3. The Director of the Oil Conservation Division, hereinafter referred to as the "Director", may grant an exception to the requirements of Rule 2 without hearing

when an application has been filed for a non-standard unit comprising all of two governmental quarter-quarter sections but comprising less than 79 acres or more than 81 acres resulting from a variation in the legal subdivision of the United States Public Lands Survey. 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 (30) days after the Director has received the application.

RULE 4. Each well shall be located no closer than 330 feet from the outer boundary of the unit.

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 a deeper 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 (20) days after the Director has received the application.

RULE 6. A standard spacing or proration unit in the Diablo Fusselman Oil Pool (79 through 81 acres) shall be assigned a top allowable of 222 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. A gas/oil ratio limitation of 6500 cubic feet of gas per barrel of oil shall be in effect.

RULE 7. A. The Director shall have the authority to administratively approve an intentionally deviated well in the Diablo Fusselman Pool for the purpose of penetrating the formation by means of a wellbore drilled horizontally, provided the following conditions are complied with:

- (1) The surface location of the proposed well is a standard location under these rules or the applicant has obtained Division approval of an unorthodox surface location.

- (2) The bore hole shall be no closer than 100 feet to the outer boundary of the proration unit.

B. To obtain administrative approval to drill an intentionally deviated horizontal wellbore, the applicant shall file such application with the Santa Fe and Artesia offices of the Division and shall further provide a copy of such application to all operators or owners of all tracts offsetting the proposed proration unit for said well by registered or certified mail, and the application shall state that such notice has been furnished. The application shall further include the following information:

- (1) A copy of Division Form C-102 identifying the proposed proration unit to be dedicated to the well.
- (2) Schematic drawings of the proposed well which fully describe the casing, tubing, perforated or open hole interval, kick-off point, and proposed trajectory of the drain hole section.

The Director may approve the application upon receipt of written waivers from all parties described above or if no objection to the intentionally deviated horizontal wellbore has been entered within 20 days after the Director has received the application. If any objection to the proposed intentionally deviated horizontal well is received within the prescribed time limit as described above, the Director shall, at the applicant's request, set said application for public hearing.

C. During or upon completion of drilling operations the operator shall further be required to conduct a directional survey on the vertical and lateral portions of the wellbore and shall submit a copy of all surveys to the Santa Fe and Artesia offices of the Division.

D. The Division Director, at his discretion, may set any application for intentionally deviated horizontal wellbores for public hearing.

IT IS FURTHER ORDERED THAT:

(2) Pursuant to Paragraph A of N.M.Stat.Ann. § 70-2-18 N.M.S.A. (1978 Comp.) contained in laws of 1969, Chapter 271, existing oil wells in the Diablo-Fusselman Oil Pool shall have dedicated thereto 80-acres in accordance with the foregoing rules; or pursuant to Paragraph C of said § 70-2-18, existing wells may have non-standard 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 a non-standard proration unit has been approved.

(3) This case shall be reopened at an Examiner hearing in October, 1990, at which time the operators in the subject pool shall appear and present the data they have acquired on this reservoir and make recommendations to the Division for permanent pool rules.

(4) The effective date of the amended temporary Special Pool Rules and Regulations promulgated herein shall be June 1, 1990.

(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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