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August 20, 1984

Mr. Gilbert Quintana
Hearing Examiner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87501

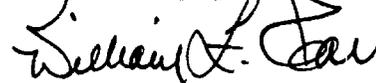
Re: Oil Conservation Division Case No. 8204: Application
of Costa Resources, Inc. for an Unorthodox Gas Well
Location, Eddy County, New Mexico.

Dear Mr. Quintana:

Pursuant to your request, we enclose herewith a proposed
Order in the above-referenced case.

If you need anything further from Amoco to proceed with
this matter, please advise.

Very truly yours,



William F. Carr

WFC/cv
enclosure

cc: Mr. Steve Scheffler
Mr. Clyde Mote

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

Case No. 8204
Order No. R-

APPLICATION OF COSTA RESOURCES,
INC. FOR AN UNORTHODOX GAS WELL
LOCATION, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9:00 a.m. on August 15, 1984, at Santa Fe, New Mexico, before Examiner Gilbert Quintana.

NOW, on this _____ day of August, 1984, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter hereof.

(2) That the applicant, Costa Resources, Inc. seeks approval of an unorthodox gas well location 1600 feet from the South line and 660 feet from the East line of Section 2, Township 18 South, Range 28 East, NMPM, to test the Morrow formation, Eddy County, New Mexico.

(3) That the S/2 of said Section 2 is to be dedicated to the well.

(4) That the primary purpose for seeking the proposed location 660 feet from the East line is to achieve a more favorable position geologically.

(5) That Amoco Production Company, the offset operator to the East, appeared and objected to the proposed unorthodox location.

(6) That unrestricted production from a well at the proposed location would result in drainage across lease lines which would not be compensated for by counter drainage without the drilling of an unnecessary well by Amoco Production Company which would result in economic waste.

(7) That such uncompensated drainage would result in violation of correlative rights and injury to the leases of the objecting offset operator.

(8) That to protect correlative rights and to prevent injury to said leases, the production from the well at the proposed unorthodox location should be limited from the Morrow formation.

(9) That the well at the proposed location is 67% closer to the East line of said Section 2 than permitted by the rules and regulations governing Morrow formation gas wells in Eddy County.

(10) That the well at the proposed location will have a theoretical area of drainage in the Morrow formation which extends 88 net acres into leases operated by the objecting offset operator, or 28% more than a well located at a standard location

in said formation.

(11) That the production limitation referred to in Finding No. (8) above should be based upon the variation of the location from a standard location and the 88 net-acre encroachment described in Finding No. (10) above, and may best be accomplished by assigning the well at the proposed location a production limitation factor of 0.52 (67% location factor plus a 28% net-acre encroachment factor divided by 2 subtracted from a 100% production factor).

(12) That in the absence of any special rules and regulations for the prorationing of production from the Morrow formation in which the subject well is completed, the aforesaid production limitation factor should be applied against said well's ability to produce into the pipeline as determined by periodic well tests.

(13) That approval of the subject application subject to the above provisions and limitations will afford the applicant the opportunity to produce its just and equitable share of the gas in the subject reservoir, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED:

(1) That Costa Resources, Inc. is hereby authorized an unorthodox Morrow formation gas well location for a well to be drilled at a point 1600 feet from the South line and 660 feet

from the East line of Section 2, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) That the S/2 of said Section 2 shall be dedicated to the above-described well.

(3) That said well is hereby assigned a Production Limitation Factor of 0.52 in the Morrow formation.

(4) That in the absence of any Special Rules and Regulations prorating gas production in said Morrow formation in which applicant's well is completed, the Special Rules hereinafter promulgated shall apply.

(5) That the following Special Rules and Regulations for a non-prorated gas well at an unorthodox location shall apply to the subject well:

SPECIAL RULES AND REGULATIONS
FOR THE APPLICATION
OF A "PRODUCTION LIMITATION FACTOR"
TO A NON-PRORATED GAS WELL

APPLICATION OF RULES

RULE 1. These rules shall apply to the Costa Resources, Inc. Morrow formation gas well to be located 1600 feet from the South line and 660 feet from the East line of Section 2, Township 18 South, Range 28 East, NMPM, Eddy County, New Mexico, which well's Production Limitation Factor of 0.52 shall be applied to the well's deliverability (as determined by the hereinafter set forth procedure) to determine its maximum allowable rate of production.

ALLOWABLE PERIOD

RULE 2. The allowable period for the subject well shall be six months.

RULE 3. The year shall be divided into two allowable periods commencing at 7:00 o'clock a.m. on January 1 and July 1.

DETERMINATION OF DELIVERY CAPACITY

RULE 4. Immediately upon connection of the well the operator shall determine the open flow capacity of the well in accordance with the Division "Manual for Back-Pressure Testing of

Natural Gas Wells" then current, and the well's initial deliverability shall be calculated against average pipeline pressure in the manner described in the last paragraph on Page I-6 of said test manual.

RULE 5. The well's "subsequent deliverability" shall be determined twice a year, and shall be equal to its highest single day's production during the months of April and May or October and November, whichever is applicable. Said subsequent deliverability, certified by the pipeline, shall be submitted to the appropriate district office of the Division not later than June 15 and December 15 of each year.

RULE 6. The Division Director may authorize special deliverability tests to be conducted upon a showing that the well has been worked over or that the subsequent deliverability determined under Rule 5 above is erroneous. Any such special test shall be conducted in accordance with Rule 4 above.

RULE 7. The operator shall notify the appropriate district office of the Division and all offset operators of the date and time of initial or special deliverability tests in order that the Division or any such operator may at their option witness such tests.

CALCULATION AND ASSIGNMENT OF ALLOWABLES

RULE 8. The well's allowable shall commence upon the date of connection to a pipeline and when the operator has complied with all appropriate filing requirements of the Rules and Regulations and any special rules and regulations.

RULE 9. The well's allowable during its first allowable period shall be determined by multiplying its initial deliverability by its production limitation factor.

RULE 10. The well's allowable during all ensuing allowable periods shall be determined by multiplying its latest subsequent deliverability, as determined under provisions of Rule 5, by its production limitation factor. If the well shall not have been producing for at least 60 days prior to the end of its first allowable period, the allowable for the second allowable period shall be determined in accordance with Rule 9.

RULE 11. Revision of allowable based upon special well tests shall become effective upon the date of such test provided the results of such test are filed with the Division's district office within 30 days after the date of the test; otherwise the date shall be the date the test report is received in said office.

RULE 12. Revised allowables based on special well tests shall remain effective until the beginning of the next allowable period.

BALANCE OF PRODUCTION

RULE 13. January 1 and July 1 of each year shall be known as the balancing dates.

RULE 14. If the well has an underproduced status at the end of a six-month allowable period, it shall be allowed to carry such underproduction forward into the next period and may produce such underproduction in addition to its regularly assigned allowable. Any underproduction carried forward into any allowable period which remains unproduced at the end of the period shall be cancelled.

RULE 15. Production during any one month of an allowable period in excess of the monthly allowable assigned to the well shall be applied against the underproduction carried into the period in determining the amount of allowable, if any, to be cancelled.

RULE 16. If the well has an overproduced status at the end of a six-month allowable period, it shall be shut in until such overproduction is made up.

RULE 17. If, during any month, it is discovered that the well is overproduced in an amount exceeding three times its average monthly allowable, it shall be shut in during that month and during each succeeding month until it is overproduced in an amount three times or less its monthly allowable, as determined hereinabove.

RULE 18. The Director of the Division shall have authority to permit the well, if it is subject to shut in pursuant to Rules 16 and 17 above, to produce up to 500 MCF of gas per month upon proper showing to the Director that complete shut in would cause undue hardship, provided however, such permission shall be rescinded for the well if it has produced in excess of the monthly rate authorized by the Director.

RULE 19. The Division may allow overproduction to be made up at a lesser rate than permitted under Rules 16 or 17 above upon a showing that the same is necessary to avoid material damage to the well.

GENERAL

RULE 20. Failure to comply with the provisions of this Order or the rules contained herein or the Rules and Regulations of the Division shall result in the cancellation of allowable assigned to the well. No further allowable shall be assigned to the well until all rules and regulations are complied with. The Division shall notify the operator of the well and the purchaser, in writing, of the date of allowable cancellation and the reason therefor.

IT IS FURTHER ORDERED:

(1) That 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

JOE D. RAMEY
Director

S E A L