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August 24, 1984

Mr. Joe D. Ramey
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

RECEIVED
AUG 27 1984
OIL CONSERVATION DIVISION

Re: Costa Resources
NMOCD Case 8204

Dear Mr. Ramey:

Enclosed, for your consideration, is a proposed order in the above referenced case.

Very truly yours,


W. Thomas Kellahin

WTK:ca
Enc.

cc: Mark Wilson
Rio Pecos Corporation
110 W. Louisiana, Suite 460
Midland, Texas 79701

Mr. Steve Hamilton
Costa Resources, Inc.
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Midland, Texas 79701

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STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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AUG 27 1984

OIL CONSERVATION DIVISION

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

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

CASE NO.8204

ORDER R-_____

COSTA RESOURCES PROPOSED ORDER

BY THE DIVISION:

This cause came on for hearing at 8:00 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 thereof.

(2) That the Applicant, Costa Resources, Inc., seeks approval of an unorthodox gas well location 1,600 feet from the South line and 660 feet from the East line of Section 2, T18S, R28E, 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 Amoco Production Company, the offset operator in Section 1, T18S, R28E, NMPM, appeared and objected to the proposed unorthodox location unless a penalty is imposed on the allowable assigned to the spacing and proration unit.

(5) That the geological data and testimony established that the productive zones in the Lower Morrow within said Sections 1 and 2 were deposited as Deltaic Distributory channel sands oriented Northwest to Southeast with the Western Channel identified as the Two Forks Channel and the Eastern Channel identified as the Amoco # Six Channel.

(6) That there is adequate well control and geological and engineering data from which to forecast with reasonable probability the width, location and orientation of both channels.

(7) That the Amoco # Six Channel is a separate and distinct channel from the Two Forks Channel Sandstone Reservoir.

(8) That Amoco has produced in excess of 2.3 billion cubic feet of gas from the Amoco # Six Channel from its South Empire Deep Unit #6 Well in the S/2 of Section 1, since 1975 and that said well continues to produce gas from that channel.

(9) That Amoco has exercised its opportunity to recover its fair share of the gas underlying Section 1 from the South Empire Deep Unit # Six well in the South half of Section 1, and the South Empire Deep Unit # 10 well in the North half of Section 1.

(10) That Applicant proposes to drill a well at the optimum location in the S/2 of said Section 2 to penetrate the Two Forks Channel.

(11) That the testimony established that the drilling of Applicants' proposed well can not be economically justified unless such wells' expected rate of production is 900 mcf per day or greater.

(12) That approximately 83% of the Two Forks Channel underlies Section 2 and that approximately 17% of the Two Forks Channel underlies the SW/4 of Section 1.

(13) That unless this application is approved without a penalty then gas that would otherwise have been produced from the Two Forks Channel will not be

recovered and waste will occur.

(14) That Amoco's request to penalize the subject well with a 48% penalty using the penalty formula as set forth in Division Order R-7008 is arbitrary, unreasonable, excessive, capricious and contrary to the substantial evidence in this case.

(15) That in order to provide to the Applicant the opportunity, as far as it is practicable to do so, to recover its fair share of the recoverable reserves in the Two Fork Channel, the unorthodox gas well location should be approved without a penalty.

(16) That a penalty as proposed by Amoco will not result in the protection of Amoco's correlative rights because the Two Forks Channel reserves underlying Amoco's tract cannot be recovered by Amoco unless Amoco drills another well in Section 1 which Amoco testified that they have no plans to drill.

(17) That approval of the subject application 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 1,600 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.

Page - 4 -
Case No. 8204
Order R-_____

(3) 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