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July 21, 1988

HAND DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of
Energy, Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: Cases 9331, 9429 and 9430:
Closing Statement of Sun Exploration & Production Company and ARCO Oil & Gas Company

Dear Mr. LeMay:

Pursuant to your request of July 14, 1988 I'm enclosing herewith the closing argument in the above consolidated cases of Sun Exploration & Production Company and ARCO Oil & Gas Company.

Very truly yours,

WILLIAM F. CARR
Enclosure
WFC/mlh
cc w/enc.: Erling A. Brostuen
Bill Humphries
All Counsel of Record
Charles A. Gray
Danny Campbell

RECEIVED

JUL 21 1988

OIL CONSERVATION DIVISION

CLOSING STATEMENT

Sun Exploration & Production Company and ARCO Oil & Gas Company, Cases 9331, 9429 and 9430:

Sun and ARCO support the development of the South Shoe Bar-Atoka Gas Pool on 320-acre spacing or proration unit. It is our position that sound conservation principles require that well spacing be a function of drainage absent a showing that wells within this pool drain less than 320-acres, the Commission must require that all wells, where possible, have standard 320-acre spacing units dedicated to them.

In this case the evidence clearly establishes that wells in the pool drain wide areas -- at least 320-acres. We therefore believe that if the Commission is to carry out its statutory duties to prevent waste and protect correlative rights, it must require 320-acre development. Any other decision will result in the drilling of an unnecessary well in the N/2 of Section 22, Township 17 South, Range 35 East, thereby causing waste and impairing correlative rights of all interest owners in the immediate area.

Sun and ARCO further oppose the creation of the non-standard proration units proposed by Phillips and Mobil in Section 22. Creation of these non-standard units will impair correlative rights unless effective penalties are imposed on each well to which less than 320-acres is dedicated.

Clearly Phillips proposal for a non-standard proration unit with production limitations based upon the deliverability of other wells in the pool is absurd. Furthermore, their contention that pipelines regulate takes inthis pool under New Mexico's ratable take statutes simply asks the Commission to delegate away its statutory duties to multiple pipelines that could not and certainly would not accept this responsibility.

Penalties tied to individual well's deliverabilities are also the source of much abuse in times like these when the market is down. For example, if a well's ability to produce is restricted to 50% of its deliverability and the purchasers are only taking 50% of the gas producible from the pool, the 50% restriction is meaningless for the operator of the well on the non-standard unit can produce as much as an offsetting operator with a standard unit dedicated to his well.

In short, we oppose non-standard proration units in this area and believe that if the Oil Conservation Commission approves these units, it would also have to prorate the pool to protect correlative rights. We therefore believe that the only thing the Commission can do is to meet its statutory responsibilities based on the drainage evidence presented in these cases is to approve the application of Phillips Petroleum Company for compulsory pooling of the N/2 of Section 22.

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21 July 1988

Mr. William J. LeMay, Director
New Mexico Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87504-2088

Re: ~~Case~~ Nos. 9331 (De Novo),
9429 and 9430

Dear Mr. LeMay:

Enclosed herewith you will please find Closing Statement of Respondents, T. H. McElvain Oil & Gas Properties and C. W. Trainer.

Thank you for your consideration in this case.

Very truly yours,

A. J. Losee

AJL:scp
Enclosures

ccw/enc: Mr. W. Thomas Kellahin
Mr. W. Perry Pearce
Mr. William F. Carr
Mr. C. W. Trainer
T. H. McElvain Oil & Gas Properties

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

IN THE MATTER OF THE APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR A NON-STANDARD GAS PRORATION UNIT AND UNORTHODOX GAS WELL LOCATION, LEAA COUNTY, NEW MEXICO	CASE NO. 9331 (DE NOVO)
IN THE MATTER OF THE APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR COMPULSORY POOLING AND AMEND DIVISION ADMINISTRATIVE ORDER NSP-1470(L) OR IN THE ALTERNATIVE, TO RESCIND DIVISION ADMINISTRATIVE ORDER	CASE NO. 9429
IN THE MATTER OF THE APPLICATION OF MOBIL EXPLORATION AND PRODUCING U.S. INC. AS AGENT FOR MOBIL PRODUCING TEXAS AND NEW MEXICO, INC. FOR COMPULSORY POOLING OR IN THE ALTERNATIVE, EITHER: (1) TO RESCIND DIVISION ADMINISTRATIVE ORDER NSP-1470(L), REDEDICATE ACREAGE TO FORM A STANDARD 320-ACRE GAS SPACING AND PRORATION UNIT, AND FOR AN ORDER POOLING ALL MINERAL INTERESTS THEREIN; or (2) FOR A NON-STANDARD GAS PRORATION UNIT, LEA COUNTY, NEW MEXICO.	CASE NO. 9430

CLOSING STATEMENT

T. H. McElvain Oil & Gas Properties and C. W. Trainer ("McElvain-Trainer" or "Respondents") urge the Commission (1) to approve the application of Phillips Petroleum Company ("Phillips") in Case No. 9331 De Novo for a non-standard gas proration unit consisting of the N/2 SW/4 and W/2 NW/4[1], and unorthodox gas well location 660 feet from the North and West lines of Section 22; (2) to approve the application of Mobil Exploration and Producing US, Inc. ("Mobil") for a 240-acre non-standard gas spacing unit covering the SE/4 and S/2 NW/4; and (3) to deny the other alternative applications in said Case Nos. 9331 (De Novo), 9429 and 9430. The 160-acre non-standard proration unit with unorthodox gas well location is the first choice of Phillips. The 240-acre non-standard proration unit is not the first choice of Mobil[2] but this unit accommodates the first choice of Phillips and places a well, according to Mobil's geology, at the very best location in Section 22.

FACTS

---

[1]All of the lands in this statement are in Section 22, Township 17 South, Range 35 East.

[2]Mobil would prefer a 20 to 1 payout, without any material risk, by paying its one-half share of McElvain "AC" State No. 1 completion costs ($200,000) and receiving 2 BCF of gas.

The Humble New Mexico "AC" State No. 1 well was drilled at an orthodox location for a Devonian oil test, was plugged and abandoned as a dry hole in 1953. In August 1985 McElvain-Trainer filed an application for administrative approval to reenter the said State No. 1 well and to dedicate the NE/4 and W/2 NW/4 as a non-standard gas proration unit to said well. All offset operators, including Phillips, Mobil and Sun received copies of the application and either consented to or failed to object to the application within the required 30 days[3]. In reliance on the Division order, McElvain-Trainer took the high risk, testified to by Phillips, and reentered the dry hole. The reentry of the said State No. 1 well resulted in the completion of an excellent Atoka gas well. However, the 850# decline in bottom hole pressure in this well from 1953 to 1986 indicated drainage had accrued from the McElvain-Trainer acreage, as well as from the offset acreage.

Between the completion of the said State No. 1 well and the date hereof, four new wells in the Atoka formation have been drilled and completed. The last well to be placed on production was the Sun well as a north offset to the McElvain-Trainer well.

Phillips' witness Mueller testified that assuming the Sun well was producing in Section 15, the McElvain-Trainer well would

---

[3]The Commission file reflects the signed return receipts of all offset operators. Sun signed a waiver.

produce 2.4 BCF and the Phillips well 2.2 BCF; and assuming the Sun and Phillips wells were producing and a Mobil well in the S/2 was producing, the McElvain-Trainer recoverable reserves would be 2.1 BCF and Phillips' would be 2 BCF. Mobil Exhibit "12" is an AFE for a S/2 unit and indicates a potential recovery of 2.5 BCF and 28,000 barrels of oil. This testimony confirms that the three wells will drain more hydrocarbons than one well and that each of the three wells would be profitable to the operators.

All of the applicants' leases in Section 22 were issued by the State of New Mexico over 50 years ago, and each provides for a royalty of 1/8. The McElvain-Trainer lease was issued in 1985 and provides for a 1/6 royalty to the State. Phillips estimates that subsequent to May 1988 the McElvain-Trainer well, without any other wells in Section 22, will produce approximately 4 BCF to depletion. With oil at $15 per barrel and gas at $2 per Mcf, the State of New Mexico would lose royalty of approximately $96,000 if Phillips' application for a N/2 proration unit were granted, and approximately $193,000 if Mobil's application for an E/2 spacing unit were granted.

Respondents' Exhibit "3" reflects workover and equipment costs for the State No. 1 well at approximately $400,000. If Phillips' application for a N/2 spacing unit were granted, Phillips proposes to reimburse McElvain-Trainer for 1/4 of these costs ($100K) and receive 1 BCF of gas, approximately a 20-1

payout without risk. If Mobil's application for an E/2 spacing unit were granted, Mobil proposes to pay 1/2 of these costs ($200K) and receive 2 BCF of gas, again a 20-1 payout without risk. Respondents' Exhibit "3" shows that this would be a $2+ million windfall to Phillips and a $4+ million windfall to Mobil.

Mobil did not like the word "windfall" applied to it and asked Thomas Hickey for his definition. Our recollection of his answer follows:

> When McElvain-Trainer obtained their lease in July 1986, Phillips and Mobil had all held their leases in Section 22 for over 50 years without ever having taken the risk of drilling Atoka-Morrow wells in Section 22. They took no risk because their leases were held by shallow production, yet they had the opportunity for over 50 years to recover the reserves they claim are under their leases.
>
> McElvain-Trainer completed their well within 6 months of obtaining their lease, which formerly had been a portion of the Phillips lease. They took all the risk, which Mr. Mueller himself stated was a "very high risk". They are currently being rewarded for having the courage to take that risk, and they are being rewarded handsomely. Yes, it has been a good investment for Mr. McElvain and Mr. Trainer. I would call that reward for risk taking rather than a windfall to Mr. McElvain and Mr. Trainer.
>
> However, your own engineer projects that the McElvain-Trainer well has 4 BCF of remaining recoverable reserves for which you propose to pay McElvain-Trainer one-half of the re-entry/workover/pipeline costs and in return, obtain a known factor--approximately 2 BCF of reserves. I call that a riskless endeavor, a sure thing except for the exact amount of the ultimate recovery of reserves and the price, but a minimum of 10 to 12 times return on "investment" and possibly 20 times, without taking any risk. That I define as a windfall.

LAW

It has long been recognized that when a drilling unit order has become final the Commission has no authority to vacate, amend or modify the order unless there is evidence of a substantial change of knowledge of conditions existing when the order was issued. Cameron v. Corporation Commission, 24 O&GR 444, 414 P.2d 266 (Okla. 1966); El Paso Natural Gas v. Corp. Comm'n, etc., 72 OGR 93, 640 P.2d 1336 (Okla. 1981). The prior order of the Commission remains in effect until properly amended, modified and vacated, and the burden is upon the party applying for a new and different pattern of well spacing to produce evidence to support such change. Hester v. Sinclair, 12 O&GR 237, 351 P.2d 751 (Okla. 1960). Witness Ahlen testified that he had no knowledge of any change of geologic conditions in the Atoka since the entry of the administrative order. The only other witness on the subject, Bill Mueller from Phillips, testified that the completion of the State No. 1 well and other wells in the field indicated good communication and resulting drainage in the Atoka. However, the witness admitted that the excellent communication in the Atoka was present in the adjoining North Vacuum Atoka field and generally occurred in other Atoka gas wells in Southeastern New Mexico. There is absolutely no evidence of a change of knowledge of conditions existing since the entry of the administrative order.

The purpose of this rule is clearly evident in this case. In reliance on the order, McElvain-Trainer took the high risk of reentering the old Humble well. If the order had not been entered, McElvain-Trainer might not have reentered the well and the Shoe Bar field might not have been extended by five new wells. The rule prevents unauthorized collateral attacks upon the original valid order of the Commission.

> . . . Because substituted substantive rights actually vest in the property owners by the force of such orders, the Oklahoma Supreme Court has laid down the rule that a modifying order will be condemned as a prohibitive collateral attack unless a "substantial change of condition" has intervened between the dates of the existing and the superseding orders.

El Paso Natural Gas, supra.

Because the Mobil acreage has already received some drainage to the State No. 1 well, Mobil denies that it would receive a "windfall" if an E/2 unit were created and by paying its share of well costs Mobil would receive its 1/2 of 4 BCF of gas. Sun joins in this argument, also claiming that its acreage has been drained by the State No. 1 well. Both Mobil and Sun overlook the oil and gas rule of capture. The owner of a tract of land acquires title to the oil and gas which he produces from wells drilled thereon, though it may prove that part of such oil or gas migrated from adjoining lands. Oil & Gas Law, Williams and Meyers, Vol. 8, Manual of Terms, at 869. As stated by the New Mexico Supreme Court in Continental Oil Co. v. Oil Conservation

Commission, 18 O&GR 69, 373 P.2d 809 (1962), the property right of owner of natural gas is not absolute or unconditional and "consists of merely (1) an opportunity to produce (2) only insofar as it is practicable to do so (3) without waste (4) a proportion (5) insofar as can be practicably determined and obtained without waste (6) of the gas in the pool." Although 2-1/2 years have elapsed since the State No. 1 well went on production, Mobil has made no effort until now to take advantage of its opportunity to produce its share of gas. Sun waited over two years before it took advantage of its opportunity to produce its share of gas. There is no reasonable basis for a complaint that the State No. 1 well has drained gas from their acreage during the intervening period.

In conclusion, Respondents do not seek to deny Phillips or Mobil the opportunity to produce their share of gas in Section 22. McElvain-Trainer supports Phillips' application for a 160-acre non-standard unit in the N/2 SW/4 and W/2 NW/4 and unorthodox location. McElvain-Trainer also supports Mobil's application for an unorthodox unit consisting of the SE/4, S/2 SW/4. Each of these wells will prevent waste, result in greater recovery of gas and protect the vested correlative rights.

Respectfully submitted,

LOSEE, CARSON, HAAS & CARROLL, P.A.

By: _____
A. J. Losee

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REPLY TO SANTA FE OFFICE

July 21, 1988

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JUL 21 1988

OIL CONSERVATION DIVISION

William J. LeMay, Chairman
Oil Conservation Commission
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case Nos. 9331, 9429, 9430 (Consolidated)

Dear Bill:

Enclosed for filing please find an original and three copies of a Closing Statement on Behalf of Mobil Exploration & Producing U.S. as Agent for Mobil Producing Texas-New Mexico, Inc. in the above referenced cases. For convenience, I am forwarding copies directly to the other Commissioners.

Sincerely,

W. Perry Pearce

WPP:sl:161
Enclosures
9781-88-05
cc: Earling Brostuen
William R. Humphries

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY AND MINERALS
OIL CONSERVATION DIVISION

RECEIVED
JUL 21 1988
OIL CONSERVATION DIVISION

IN THE MATTER OF THE APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR A NON-STANDARD GAS PRORATION UNIT AND UNORTHODOX GAS WELL LOCATION, LEA COUNTY, NEW MEXICO

Case 9331
(Consolidated)

IN THE MATTER OF THE APPLICATION OF PHILLIPS PETROLEUM COMPANY FOR COMPULSORY POOLING AND TO AMEND DIVISION ADMINISTRATIVE ORDER NSP-1470(L), LEA COUNTY, NEW MEXICO

Case 9429
(~~Con~~solidated)

IN THE MATTER OF THE APPLICATION OF MOBIL EXPLORATION AND PRODUCING U.S. AS AGENT FOR MOBIL PRODUCING TEXAS-NEW MEXICO, INC. FOR COMPULSORY POOLING AND THE DELETION OF ACREAGE FROM AN EXISTING NON-STANDARD PRORATION AND SPACING UNIT, OR IN THE ALTERNATIVE, FOR COMPULSORY POOLING, OR AS A FURTHER ALTERNATIVE FOR THE COMPULSORY POOLING OF A NON-STANDARD PRORATION UNIT AND APPROVAL OF THAT UNIT, LEA COUNTY, NEW MEXICO.

Case 9430
(Consolidated)

CLOSING STATEMENT ON BEHALF OF
MOBIL EXPLORATION & PRODUCING U.S. AS
AGENT FOR MOBIL PRODUCING TEXAS-NEW MEXICO, INC.

In these consolidated cases the New Mexico Oil Conservation Commission is called upon to render its decision on the appropriate development of Section 22, Township 17 South, Range 35 East, Lea County, New Mexico. In the course of the decision the division is called upon to apply its reasoning and decision making powers in order to fulfill its basic duties which are to

prevent the waste of natural resources and to protect the correlative rights of interest owners in those resources.

This matter is before the Oil Conservation Commission because additional drilling within Section 22 is necessary to increase the ultimate recovery of reserves from that section and because in order to protect the correlative rights of all interest owners within Section 22 appropriate spacing and proration units must be devised for the wells which have been and will be drilled within that section.

In its Application in Case 9430 Mobil has provided the Commission with three alternative possibilities for resolving this matter. They are:

1. The formation of two "stand-up" 320 acre spacing and proration units;
2. The formation of two "lay-down" 320 acre spacing units; or
3. The formation of two additional non-standard spacing and proration units to be comprised of 160 acres and 240 acres.

ALTERNATIVE 1

Mobil has presented its best geological and engineering information to the Commission and after reviewing that information Mobil has concluded that the most appropriate spacing and proration pattern for Section 22 is the formation of two "stand-up" 320 acre spacing units. In order to accomplish the formation of these units, it will be necessary for the Commission

to eliminate the east half of the northwest quarter of Section 22 from its present dedication to the T.H. McElvain New Mexico "AC" State Well No. 1 and to add to the spacing and proration unit dedicated to that well the southeast quarter of that section. Accomplishing these changes will then allow the formation of a second standard 320 acre spacing and proration unit comprising the west half of Section 22 which can be formed by pooling the west half of the northwest quarter (W/2NW/4) the east half of the northwest quarter (E/2NW/4) and the southwest quarter (SW/4) of Section 22.

Mobil has presented evidence which demonstrates that this is the most appropriate spacing and proration unit pattern because the majority of reserves available to the T.H. McElvain New Mexico "AC" State Well No. 1 are being drained from the northeast quarter of that section, on which the well is located, and from the southeast quarter of that section which is not presently dedicated to that well.

The best and most complete geological evidence presented indicates that there is a thick sand channel which is predominantly in the southeast quarter of this section and that this channel is being drained by the much thinner sand section present in the northeast quarter of the section. Other parties to this proceeding have consistently indicated that they believe that there was no productive acreage within the south half of Section 22; however, each of the witnesses who testified about such matter agreed that the reason they had concluded this was

because they did not have any evidence of there being productive sand. Mobil's geologist, Patrick Whelan, presented conclusive geological evidence from interpretation of seismic data that there is a thickening of an Atoka sand body in the southeast quarter of Section 22 and this evidence irrefutably demonstrates that the suppositions made by other parties to this proceeding are incorrect.

To the extent that the majority of reserves being produced by the McElvain well are being produced from this thicker sand channel in the southeast quarter of Section 22, it is inequitable to allow the McElvain well to continue to drain those reserves without allowing Mobil, the lessee of the southeast quarter, to participate in that production. In addition, it is unnecessary and wasteful to cause the drilling of a second well in the east half of Section 22. The Mobil geologist clearly stated that he believed a location in the southeast quarter of Section 22 would have been the optimal location for a well within the east half of this section. However, since a well already exists in the northeast quarter of this section which is capable of recovering these reserves, it is wasteful to cause the drilling of a well in the southeast quarter. Section 70-2-17 of the New Mexico Oil & Gas Act provides that the Commission:

> . . . shall consider the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention

of reduced recovery which might result from the drilling of too few wells.

This section specifically addresses the problem presented to the Commission by these consolidated cases. It is wasteful to cause the drilling of an additional well in the east half of Section 22 and yet the drilling of an additional well somewhere within that section is required in order to prevent waste of the natural resources because a single well is not capable of draining the entire section efficiently.

In its presentation Mobil has demonstrated that it made a good faith attempt to resolve this matter by voluntarily reaching agreement with other parties to form a "stand-up" 320 acre east half spacing and proration unit and has described a set of fair and reasonable terms to govern its participation in the McElvain well.

On the basis of the evidence Mobil has presented, Mobil requests that the Commission grant its application for a pooling of the 320 acres in the east half of Section 22, that it be allowed to participate in the well previously re-entered by T.H. McElvain Oil & Gas, that provision be made for Mobil to be allowed 90 days to pay 50% of the costs of re-entry and equipping that well plus 12% interest from the date of production from such re-entry, and that in the event payment is not tendered to T.H. McElvain Oil & Gas within said 90 day period, that Mobil not be allowed to share in revenue from production from that well until such sums are paid. In addition Mobil requests that the operator

of the well be allowed reasonable overhead and administrative expense during operation of this well.

ALTERNATIVE 2

As its second alternative Mobil requests that the Commission enter its order force pooling the south half of Section 22 to form a standard 320 acre spacing and proration unit. Mobil has presented evidence which demonstrates that the entire south half of Section 22 should be expected to be productive of reserves and as an interest owner in the south half Mobil seeks to be allowed to drill a well in said south half to recover its just and reasonable share of those reserves. As pointed out above, relating to alternative number 1, Mobil believes that the best acreage in the south half of Section 22 is located in the southeast quarter; however, Mobil also has presented evidence which indicates that the entire section is underlain by Atoka sands which can reasonably be expected to be productive of reserves.

Mobil has presented evidence that it has sought to gain voluntary agreement to pooling of the 320 acre south half spacing and proration unit and has been unsuccessful in that attempt at voluntary pooling. Mobil has also presented evidence on the reasonable costs of drilling a well in the south half of the section and has presented evidence of the risk attendant upon the drilling of a well at such location. Mobil further has presented evidence that reasonable administrative and overhead costs during drilling and production of such a well are $6,100 per month and

$610 per month respectively and that the risks of drilling such a well justify the Commission granting a 200% risk penalty applicable to pooled parties who do not participate.

On the basis of such evidence, Mobil is entitled to an order of this Commission pooling the south half of said Section 22 to form a standard 320 acre spacing and proration unit and requests that the division enter its order accomplishing such pooling, allowing reasonable well costs, naming Mobil as the operator of such well and allowing reasonable administrative and overhead costs of $6,100 per month during drilling of such well and $610 per month during production and establishing a 200% risk penalty.

ALTERNATIVE 3

As its third alternative Mobil seeks an order of the Commission pooling the southeast quarter of Section 22 with the south half of the southwest quarter of Section 22 to form a non-standard 240 acre drilling and spacing unit. In the event that the Commission grants the application of Phillips Petroleum Company for a non-standard spacing and proration unit comprised of the west half of the northwest quarter and the north half of the southwest quarter, Case 9331, a non-standard 240 acre spacing unit is the most equitable and reasonable spacing and proration unit available to Mobil for the drilling of a well into the Atoka sand in the South Shoe Bar pool.

As set forth above, Mobil has demonstrated 1) that the south half of Section 22 can reasonably be expected to be productive of reserves from the Atoka sand, 2) that it has presented an

estimate of reasonable well costs for a well to be drilled in the south half of said section 3) that it has been unable to reach voluntary agreement, 4) that the risks attendant upon drilling a well at such location justify the Commission granting the maximum allowable risk penalty of 200% and 5) that the reasonable administrative and overhead costs of drilling and operation of such well are $6,100 per month and $610 per month respectively.

In the event that Phillip's application in Case 9331 is granted, Mobil requests that its third alternative for the pooling of a 240 acre non-standard gas proration unit in the atoka sand be granted pursuant to these terms.

CONCLUSION

The matter presented to the Commission for resolution in these consolidated cases is now a tangled thicket. Mobil as well as most other parties to this proceeding agree that the one well presently existing in Section 22 will not effectively and efficiently drain the gas reserves from the Atoka sand underlying that section. Mobil has presented this Commission with three alternatives for resolution of this matter. Mobil's evidence and best geological understanding of the Atoka sand as demonstrated by stratigraphic logs and seismic data show that two "stand-up" 320 acre spacing and proration units will most equitably and efficiently drain the reserves underlying this section and therefore Mobil requests that its application to pool its southeast quarter of this section with the northeast quarter of this section and participate in the well presently existing in

the northeast quarter be granted and that the east half of the northwest quarter of this section be eliminated from the spacing and proration unit presently dedicated to well. Mobil believes that such a resolution will act to prevent waste and protect the correlative rights of all interest owners within the section.

As its second alternative Mobil seeks a pooling of the south half of this section to form a standard 320 acre spacing unit under the terms set forth above in the discussion of alternative number 2. Mobil believes that a well within the south half of Section 22 can effectively and efficiently drain the reserves underlying the south half of that section and requests that it be named the operator of such a well.

As a third alternative Mobil requests that in the event the Commission believes that three separate spacing and proration units are justified within Section 22 and that Phillips application in case 9331 is granted, that it be allowed to drill a well in a 240 acre non-standard spacing and proration unit comprised of the southeast quarter and the south half of the southwest quarter of said section. Mobil requests that an order granting the pooling of this non-standard spacing and proration unit include the provisions set forth above in the discussion of alternative number 3.

Respectfully submitted,

MONTGOMERY & ANDREWS, P.A.

By _____
W. Perry Pearce
Post Office Box 2307
Santa Fe, New Mexico 87504-2307

Certificate of Service

I hereby certify that I caused a true and correct copy of the foregoing Closing Statement to be mailed to A. J. Losee, Losee & Carson, P.A., Post Office Drawer 239, Artesia, New Mexico 88210, George H. Hunker, Jr., Esquire, Post Office Box 1837, Roswell, New Mexico 88202, W. Thomas Kellahin, Esquire, Post Office Box 2265, Santa Fe, New Mexico 87504-2265 and William F. Carr, Esquire, Post Office Box 2208, Santa Fe, New Mexico 87504-2208 on this 21st day of July, 1988.

_____
W. Perry Pearce

WPP:147

KELLAHIN, KELLAHIN AND AUBREY
Attorneys at Law
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July 22, 1988

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JUL 22 1988
OIL CONSERVATION DIVISION

Mr. William J. LeMay
Oil Conservation Commission
P. O. Box 2088
Santa Fe, New Mexico 87501

Mr. Erling A. Brostuen
Energy and Minerals Department
525 Camino de los Marquez
Santa Fe, New Mexico 87501

Mr. William R. Humphries
State Land Commissioner
Land Office Building
Santa Fe, New Mexico 87501

Re: Cases 9331, 9429 and 9430
Closing Statement of Phillips Petroleum Company

Gentlemen:

Pursuant to your request of July 14, 1988 at the conclusion of the Commission hearing for the referenced case for closing statements, on behalf of Phillips Petroleum Company, we have enclosed a Proposed Order for entry in this case which incorporates our closing statement.

Very truly yours,

W. Thomas Kellahin

WTK/ans

Enclosure

cc: William F. Carr, Esq.
W. Perry Pearce, Esq.
A. J. Losee, Esq.

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. 9331
Order No. R-8644-A

THE APPLICATION OF PHILLIPS
PETROLEUM COMPANY FOR A NON-STANDARD
GAS PRORATION UNIT AND UNORTHODOX
GAS WELL LOCATION, LEA COUNTY, NEW
MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for De Novo hearing at 1:20 p.m. on July 14, 1988, at Santa Fe New Mexico, before Commissioners William J. Lemay, William R. Humphries and Erling A. Brostuen.

NOW, on this _____ day of July, 1988, the Division Director, having considered the testimony, the record, and having been 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, Phillips Petroleum Company (Phillips), seeks approval for an unorthodox gas well location for its proposed State "22" Well No. 1 to be located 660 feet from the North and West lines (Unit D) of Section 22, Township 17 South, Range 35 East, NMPM, Lea County, New Mexico, to test the South Shoe-Bar Atoka Gas Pool and the Morrow formation, said well to be dedicated either to a 160-acre non-standard gas proration and spacing unit consisting of the N/2 SW/4 and W/2 NW/4 of said Section 22, or in the alternative, to an 80-acre non-standard gas proration and spacing unit consisting of the W/2 NW/4 of said Section 22.

(3) The applicant is the leasehold owner of the W/2 NW/4 of said Section 22, and at the time of the hearing, the applicant testified that Phillips has reached a verbal agreement with Amerada Hess to obtain by farmout their acreage consisting of the N/2 SW/4 of said Section 22 contingent upon approval of the subject application by the Division.

(4) At the time of the hearing, the applicant requested that the portion of the case requesting approval of an 80-acre non-standard spacing and proration unit to be dedicated to subject well be dismissed.

(5) The evidence in this case indicates that by Administrative Order No. NSP-1470, the Division approved a 240-acre non-standard gas spacing and proration unit consisting of the NE/4 and the E/2 NW/4 of said Section 22, said acreage dedicated to the T.H. McElvain Oil and Gas Properties New Mexico "AC" State Well No. 1 located at an unorthodox gas well location 1980 feet from the North line and 660 feet from the East line (Unit H) of said Section 22, which was completed in the South Shoe-Bar Atoka Gas Pool in January, 1986.

(6) The evidence further indicates that Sun Exploration and Production Company (Sun) currently operates the South Shoe Bar State Com Well No. 1 located 660 feet from the South line and 2030 feet from the West line of Section 15, Township 17 South, Range 35 East, NMPM, which was completed in the South Shoe-Bar Atoka Gas Pool in December, 1987.

(7) Phillips and Sun presented as evidence initial bottom hole pressure data from the two aforementioned wells which indicates that prior to its completion, the South Shoe Bar State Com Well No. 1 likely experienced drainage from the New Mexico "AC" State Well No. 1 which is located a distance of approximately 3698 feet away.

(8) This evidence in turn indicates that at least a portion of Phillips acreage in the W/2 NW/4 has been and is currently being drained by the aforementioned New Mexico "AC" State Well No. 1 and now currently also by the South Shoe Bar State Com Well No. 1.

(9) Phillips testified that the proposed non-standard gas proration unit and unorthodox location are necessary in order to protect itself from offset drainage.

(10) The proposed non-standard gas proration unit represents a reasonable method to continue to develop the remaining acreage in said Section 22.

(11) Phillips further presented geologic evidence which indicates that a well at the proposed unorthodox location would encounter the Atoka formation at a thicker sand position than a well drilled at a standard location thereon.

(12) The evidence presented indicates that a well at the proposed location would effectively and economically drain the proposed non-standard gas proration unit.

(13) Approval of the proposed non-standard gas proration unit and unorthodox location will allow Phillips the opportunity to produce its equitable share of the gas in the pool and will protect correlative rights by allowing Phillips to protect its acreage from offset drainage.

(14) The evidence in this case indicates that the proposed well will likely encounter production within the South Shoe-Bar Atoka Gas Pool. The applicant further requested, as part of the subject application, that they be allowed to test the Morrow formation as well.

(15) The applicant should be allowed to test the Morrow formation in the subject well, however, inasmuch as there is insufficient evidence in this case to make a determination of whether or not to impose a production penalty on the well in the event of a Morrow completion, the Division Director should have the authority to reopen this case at his discretion, in order to determine a suitable production penalty for the subject well should a Morrow completion occur.

(16) Phillips proposed that the subject well be assigned a production penalty acreage factor equal to 0.50 based upon the acreage that the non-standard proration unit bears to a standard proration unit within the pool (160/320) or 0.50. Phillips requested that said penalty factor be applied pursuant to Paragraph (E) Section 70-2-19, NMSA, 1978, which requires a common purchaser to ratably take gas from gas wells in a given pool in accordance with rules and regulations promulgated by the Division which may be based upon such factors as quality, deliverability, acreage, or market requirements.

IT IS THEREFORE ORDERED THAT:

(1) Order R-8644 dated April 27, 1988, is hereby cancelled.

(2) A 160-acre non-standard gas proration unit consisting of the W/2 NW/4 and the N/2 SW/4 of Section 22, Township 17 South, Range 35 East, NMPM, South Shoe-Bar Atoka Gas Pool and Wildcat Morrow, Lea County, New Mexico, is hereby established and dedicated to the applicant's State "22" Well No. 1 to be located at an unorthodox gas well location, also hereby approved, 660 feet from the North and West lines (Unit D) of said Section 22.

(3) The subject well is hereby assigned an acreage penalty factor of 0.50 within the South Shoe-Bar Atoka Gas Pool, said factor to be used in determining the ratable gas take for the subject well in accordance with Paragraph (E), Section 70-2-19, NMSA, 1978.

(4) This case shall be reopened one year following completion of the subject well for Phillips to show that the correlation rights of offset operators have been protected by application of the above 0.50 acreage penalty factor.

(5) The Division Director shall have the authority to reopen this case at his discretion in order to determine whether or not the subject well should receive a production penalty in the event of a Morrow completion.

(6) 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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