

**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:**

FOR RECORD ONLY

**CASE NO. 12450
ORDER NO. R-11456**

APPLICATION OF OCEAN ENERGY RESOURCES, INC. FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 27, 2000, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 12th day of September, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

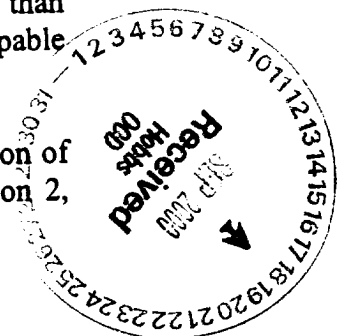
- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) The applicant, Ocean Energy Resources Inc. ("Ocean"), seeks approval of a 40-acre non-standard oil spacing and proration unit in the South Big Dog-Strawn Pool comprising the NW/4 SE/4 of (Irregular) Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico. This unit is to be dedicated to Ocean's proposed Townsend "2" State Well No. 11 to be drilled at a standard oil well location 1800 feet from the South line and 1650 feet from the East line (Unit R) of Section 2.
- (3) Yates Petroleum Corporation ("Yates"), an offset operator, and David Petroleum Corporation, an interest owner within the offset acreage, appeared at the hearing and presented evidence in opposition to the application.
- (4) McMillan Production Company, Inc. and Permian Exploration Corporation, both interest owners within Section 2, appeared at the hearing through legal counsel.

(5) Division records demonstrate that:

- (a) on June 20, 2000, Ocean filed both a hearing and administrative application for approval of its proposed 40-acre non-standard unit comprising the NW/4 SE/4 of Section 2, Township 16 South, Range 35 East, NMPM;
- (b) Ocean's application for hearing was assigned Case No. 12450;
- (c) on July 10, 2000, Yates filed a timely objection to the proposed 40-acre non-standard unit. Yates's letter of objection was inadvertently filed in Case File No. 12450 and not with the administrative application;
- (d) on July 10, 2000, the Division issued Administrative Order No. NSP-1824 which approved Ocean's 40-acre non-standard unit; and
- (e) as a result of Yates's letter of objection, the Division, by letter dated July 13, 2000 placed Administrative Order No. NSP-1824 in abeyance until further notice.

(6) Ocean presented evidence that demonstrates:

- (a) the proposed well and spacing unit are located within the South Big Dog-Strawn Pool, which is currently governed by special pool rules as established by Division Orders No. R-9722-C and R-10448-A. These rules require standard 80-acre spacing and proration units with wells to be located no closer than 330 to any quarter-quarter section line or subdivision inner boundary nor closer than 1,020 feet to the nearest well drilling to or capable of producing from the same pool;
- (b) as a result of a variation in the legal subdivision of the United States Public Lands Survey, Section 2,



Township 16 South, Range 35 East contains twenty-four quarter-quarter sections or lots;

- (c) development of the South Big Dog-Strawn Pool within this portion of Section 2 has occurred such that the existing proration units are comprised as follows:
 - (i) Lots 10 and 15 are currently dedicated to the Yates Field "APK" State Corn Well No. 1 (API No. 30-025-33563) located 3500 feet from the North line and 1880 feet from the East line (Lot 10, Unit J);
 - (ii) Lot 16 and the NE/4 SE/4 are currently dedicated to the Ocean Townsend State Well No. 1 (API No. 30-025-33713) located 3526 feet from the South line and 727 feet from the East line (Lot 16, Unit P); and
 - (iii) the S/2 SE/4 is currently dedicated to the Ocean Townsend State Well No. 5 (API No. 30-025-34500) located 330 feet from the South line and 1520 feet from the East line (Unit W); and
 - (d) the NW/4 SE/4 of Section 2 is the only 40-acre tract not contained within an existing Strawn proration unit in this portion of Section 2.
- (7) Yates is opposed to the application for the following reasons:
- (a) Ocean has severely over-produced its Townsend State No. 5 in the South Big Dog-Strawn Pool and has requested in Case No. 12401, heard before the Division on May 4, 2000, that such over-production be cancelled;

- (b) the Townsend State No. 5 and the proposed Townsend "2" State No. 11 are located in a Strawn porosity pod that extends to the southwest and encompasses acreage on which Yates's Shell Lusk "ANB" No. 2 and Schenck "ATP" No. 1 are located; and
- (c) Ocean has already produced its share of the hydrocarbons from this Strawn porosity pod through its Townsend State No. 5.

(8) Yates requested that Ocean's application be denied **or, in the alternative**, that the application be approved effective on the date that all overproduction from the Townsend State No. 5 is made up and that the Townsend "2" State No. 11 be assigned an allowable of 222 barrels of oil per day in the South Big Dog-Strawn Pool.

(9) On August 31, 2000, the Division entered Orders No. R-9722-E and R-10448-C in consolidated Cases No. 12374 and 12401.

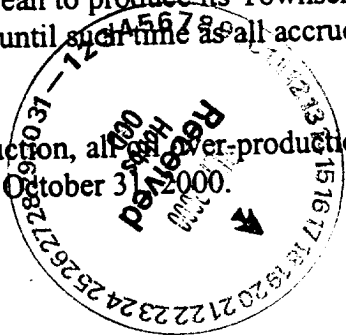
(10) Findings No. (29) and (30) of Division Orders No. R-9722-E and R-10448-C state that:

(29) The engineering evidence presented by Yates is not sufficient to demonstrate that the Townsend State No. 5 is located within the same producing pod as its Shell Lusk "ANB" No. 2 and Schenck "ATP" No. 1.

(30) The geologic and engineering evidence presented generally demonstrates, although not conclusively, that the Townsend State No. 5 is located within a porosity pod that is effectively isolated from other porosity pods within the South Big Dog-Strawn Pool.

(11) Division Orders No. R-9722-E and R-10448-C did not grant the relief sought by Ocean in Case No. 12401 and further required Ocean to produce its Townsend State No. 5 at a rate not to exceed 300 barrels of oil per day until such time as all accrued oil over-production from the well is made up.

(12) It is estimated that at its current rate of production, all over-production from the Townsend State No. 5 will be made up on or about October 31, 2000.



(13) Ocean has the right to recover the oil and gas reserves underlying the NW/4 SE/4 of Section 2.

(14) Approval of the proposed 40-acre non-standard unit will provide Ocean the opportunity to recover the oil and gas reserves underlying the NW/4 SE/4 of Section 2, will allow the orderly development of the South Big Dog-Strawn Pool within the S/2 of Section 2, and will protect correlative rights provided that certain stipulations are placed upon the development of this acreage.

(15) No other offset operator or interest owner appeared at the hearing in opposition to the application.

(16) Pursuant to Rule (7) of the Special Pool Rules for the South Big Dog-Strawn Pool, the Townsend "2" State No. 11 should be assigned an oil allowable of 222 barrels of oil per day.

(17) Ocean should not produce its Townsend "2" State No. 11 in the South Big Dog-Strawn Pool until such time as all oil over-production from its Townsend State No. 5 is made up.

(18) Ocean should notify the supervisor of the Division's Hobbs District Office at such time as all oil over-production from the Townsend State No. 5 is made up in order that the Division may approve Ocean's Form C-104 (Request for Allowable and Authorization to Transport) for the Townsend "2" State No. 11.

(19) Division Administrative Order No. NSP-1824 should be superceded by this order.

IT IS THEREFORE ORDERED THAT:

(1) The application of Ocean Energy Resources, Inc. ("Ocean") to establish a 40-acre non-standard oil spacing and proration unit for the South Big Dog-Strawn Pool comprising the NW/4 SE/4 of Section 2, Township 16 South, Range 35 East, NMPM, Lea County, New Mexico, is hereby approved.

(2) Ocean is further authorized to drill and dedicate to this non-standard unit its Townsend "2" State No. 11 located at a standard location 1800 feet from the South line and 1650 feet from the East line (Unit R) of Section 2.

(3) The Townsend "2" State No. 11 is hereby assigned an oil allowable of 222 barrels of oil per day in the South Big Dog-Strawn Pool.

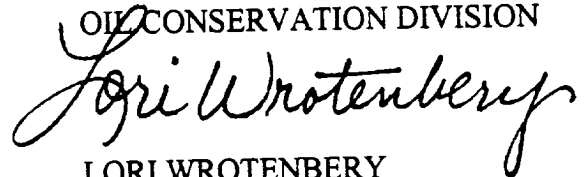
(4) Ocean shall not produce its Townsend "2" State No. 11 in the South Big Dog-Strawn Pool until such time as all oil over-production from its Townsend State No. 5 is made up.

(5) Ocean shall notify the supervisor of the Division's Hobbs District Office at such time as all oil over-production from the Townsend State No. 5 is made up in order that the Division may approve Ocean's Form C-104 (Request for Allowable and Authorization to Transport) for the Townsend "2" State No. 11.

(6) Jurisdiction is hereby 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



LORI WROTENBERY
Director

SEAL

ELF
5/10/01
ABOVE DATE DOES NOT
INDICATE WHEN
CONFIDENTIAL LOGS
WILL BE RELEASED

