

**UNITED STATES DEPARTMENT OF THE INTERIOR
MINERALS MANAGEMENT SERVICE
GULF OF MEXICO OCS REGION**

NTL No. 97-16 August 1, 1997

NOTICE TO LESSEES AND OPERATORS OF FEDERAL OIL AND GAS LEASES
ON
THE OUTER CONTINENTAL SHELF, GULF OF MEXICO OCS REGION

Production Within 500 Feet of a Unit or Lease Line

This Notice to Lessees and Operators conveys and clarifies Minerals Management Service (MMS) policy regarding the production of a well completion within 500 feet of a unit or lease line. The MMS regulations contained in 30 CFR 250.171(b) require that prior approval be obtained from the Regional Supervisor, Production and Development, before commencing production from a well completion located within 500 feet of a unit or lease line for which the unit, lease, or royalty interests are not the same. An operator seeking such approval must furnish letters expressing acceptance or objection from operators of offset properties.

So that Gulf of Mexico operators may be informed of MMS interpretation and procedure regarding this regulation, we present the following:

In cases when the offset operator does not object to the proposed production, approval to produce a completion within 500 feet of a unit or lease line will be granted if it can be demonstrated that the production will cause no harm to ultimate recovery from the reservoir.

In cases when the offset operator does object to the proposed production, approval to produce a completion within 500 feet of a unit or lease line will be granted if the proposed location within 500 feet of the unit or lease line is necessary to maximize ultimate recovery or to protect correlative rights. Correlative rights means the right of each lessee to be afforded an equal opportunity to explore for, develop, and produce, without waste, minerals from a common source.

In order to protect correlative rights, the offset operator will be granted approval to drill its first well in the subject reservoir, even if it is within 500 feet of the unit or lease line, provided that this well causes no harm to ultimate recovery. This well will not be considered unnecessary. However, requests by either operator to drill and produce from any subsequent well in either lease in the subject reservoir, whether or not it is located within 500 feet of the unit or lease line, will be reviewed for the possibility of an unnecessary well.

Potential drainage of an offset lease is not sufficient reason to deny a request to produce within 500 feet of a unit or lease line, except in the case of a potential high-capacity well completion. A potential high-capacity well completion is defined for the purposes of this NTL as a well completion in the subject reservoir with a completed interval greater than 150 feet, such as a horizontal completion.

If approval is requested to produce a potential high-capacity well completion with any part of the completed interval within 500 feet of a unit or lease line, then the requesting operator must include this information in the notification to the offset operator. Drainage of the offset lease will be a consideration in the approval/denial to produce a potential high-capacity well completion within 500 feet of a unit or lease line.

Any approval granted for production from a well within 500 feet of a unit or lease line does not exempt the operator from other relevant conservation regulations, such as required approval to produce the gas cap of a sensitive, oil-with-associated-gas-cap reservoir.

The following provides information related to requests to produce within 500 feet of a unit or lease line:

The requesting operator is encouraged to request approval for production from a completion within 500 feet of a unit or lease line prior to the drilling of the well. If the operator chooses not to request such approval until after the well is drilled, the MMS will make its decision to approve or deny the request without regard to the fact that the subject well has already been drilled.

Requests to produce a well within 500 feet of a unit or lease line should include the following information:

1. Operator name, lessee name(s), field, block, lease number, royalty rate, and unit number (if applicable) for the subject and offset leases.
2. Surface location, bottomhole location, and location of the completion, including the nearest point to the unit or lease line.
3. Reservoir name and statement as to whether it is potentially competitive.
4. Plat map showing the surface, bottomhole, and completion locations with respect to the unit or lease line and 500 feet from the unit or lease line.
5. Well log section (or representative well log sections) showing the top and base of sand and proposed completed interval and directional survey (or proposed directional drilling plan).

6. Structure map with completion location, lease or unit lines, other well penetrations, and reservoir boundaries, including fluid levels.
7. Brief narrative summarizing rationale for necessity of producing at the proposed location within 500 feet of the unit or lease line and estimated dates of commencement and conclusion of drilling and completion operations.
8. Other supporting information such as amplitude maps, representative seismic lines, velocity survey, isopach map, cross section, etc.

The offset operator must provide the required letter of acceptance or objection to the proposed production within 30 days of the time of notification by the requesting operator. This notification should include the well name and location or target location of the completion, including the nearest point of the completion to the unit or lease line. If the offset operator fails to provide such a letter within 30 days of notification and proof of that notification (such as a certified letter) is provided, the MMS will proceed with its review and decision. A letter of objection from an offset operator to proposed production from a well within 500 feet of a unit or lease line does not necessarily mean the request will be denied.

Approval to produce one completion in a well from a reservoir within 500 feet of a unit or lease line does not apply to subsequent completions in different reservoirs in the same well within 500 feet of a unit or lease line. Separate, prior approval must be obtained for each subsequent completion in the well to be produced within 500 feet of the unit or lease line.

Approval from the Regional Supervisor is not required prior to commencing production from a completion within 500 feet of a unit or lease line when the offset block is unleased.

This NTL supersedes the Letter to Lessees dated August 28, 1995, concerning horizontal wells within 500 feet of a unit or lease line.

The information collection provisions of this NTL are intended to provide clarification, description, or interpretation of requirements contained in 30 CFR Part 250, Subpart K. The Office of Management and Budget (OMB) has approved the information collection requirements in the regulations and associated MMS forms. The applicable OMB Control Numbers are: 1010-0041 for Subpart K; 1010-0017 for Form MMS-128, Semiannual Well Test Report; 1010-0018 for Form MMS-127, Request for Reservoir Maximum Efficient Rate (MER); and 1010-0039 for Form MMS-126, Well Potential Test Report and Request for Maximum Production Rate. This NTL does not impose additional information collection requirements subject to the Paperwork Reduction Act of 1995.

If there are any questions concerning these policies, please contact Mr. Stephen Dessauer at (504) 736-2646, Ms. Frances Wiseman at (504) 736- 2912, or Mr. Charles Nixdorff at (504) 736-2909.

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