



March 4, 2005

BY HAND DELIVERY

Oil Conservation Commission
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Attention: Florene Davidson

2005 MAR 4 PM 3 27

Re: New Mexico Oil Conservation Division Case 13351 (DE NOVO):
Application of Edge Petroleum Exploration Company to Restrict the
Effect of the Special Pool Rules and Regulations for the Dos Hermanos-
Morrow Gas Pool, Eddy County, New Mexico.

Dear Ms. Davidson;

Enclosed for filing are the Pre-Hearing Statement and exhibits that V-F Petroleum Corporation will present at the March 8, 2005 Oil Conservation Commission hearing in the above-referenced case.

By copy of this letter, I have provided copies of these exhibits to Commissioners Mark E. Fesmire, P. E., Jamie Bailey, and Frank Chaves and to David K. Brooks, Esq., Attorney for the Oil Conservation Commission, James Bruce, Esq., attorney for Edge Petroleum Exploration Company.

Very truly yours,

William F. Carr
Attorney for V-F Petroleum Corporation

Enc.

Mark E. Fesmire, P. E., Chairman
Oil Conservation Commission
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

HOLLAND & HART 

Jami C. Bailey, Commissioner
Oil Conservation Commission
New Mexico State Land Office
310 Old Santa Fe Trail
Santa Fe, New Mexico 87504

Frank Chaves, Commissioner
2104 East 17th Street
Farmington, New Mexico 87401

David K. Brooks, Esq.
Assistant Attorney General
Oil Conservation Commission
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

James Bruce, Esq.
Attorney at Law
369 Montezuma, No. 213
Santa Fe, New Mexico 87501

**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. 13351
DE NOVO**

**APPLICATION OF EDGE PETROLEUM
EXPLORATION COMPANY TO RESTRICT THE
EFFECT OF THE SPECIAL RULES AND
REGULATIONS FOR THE DOS HERMANOS-
MORROW GAS POOL, EDDY COUNTY, NEW
MEXICO.**

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PRE-HEARING STATEMENT

This Pre-Hearing Statement is submitted by Holland & Hart LLP as required by the Rules of the Oil Conservation Commission.

APPEARANCES OF PARTIES

APPLICANT

Edge Petroleum Exploration Company

ATTORNEY

James Bruce, Esq.

OPPOSITION

V-F Petroleum, Inc.
Attn: Mr. Jerry Gahr
Post Office Box 1889
Midland, Texas 79702

ATTORNEY

William F. Carr, Esq.
Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504
(505) 988.4421

STATEMENT OF CASE

APPLICANT

Applicant seeks an order limiting the effect of the special rules and regulations for the Dos Hermanos-Morrow Gas Pool, which provide for 640-acre spacing, one well per spacing and proration unit, and special well location requirements, to its current horizontal extent. The pool covers all of Sections 21, 22, 27, and 28, Township 20 South, Range 30 East.

OPPOSITION

V-F Petroleum, Inc. ("V-F Petroleum") opposes the application of Edge Petroleum Exploration Company ("Edge") because this proposal impairs correlative rights. The Dos Hermanos-Morrow Gas Pool was created by Oil Conservation Division (Order No. R-2938, August 1, 1965) and currently includes Sections 21, 22, 27 and 28 of Township 20 South, Range 30 East, NMPM. In 1966, the Division adopted Special Rules and Regulations for this pool including provisions for 640-acre spacing and proration units with wells to be located no nearer than 1650 feet to the outer boundary of the section. These special pool rules also govern the development of the Morrow formation within one mile of the pool boundary ("the buffer zone"). Order No. R-3351, December 22, 1965.

V-F Petroleum is the operator of the wells in this pool and has developed the pool in accordance with the Special Rules and Regulations. In 2004, V-F Petroleum drilled a well to test the Morrow formation a location 1650 feet from the South and West lines of Section 21, Township 20 South, Range 30 East, NMPM. The well has produced from the Morrow formation for a short time. V-F Petroleum has also recently staked a location in the buffer zone in Section 16 at a standard location 1650 feet from the outer boundary of the section.

Edge acquired 280 acres in the N/2 of Section 29, Township 20 South, Range 30 East, NMPM in July 2004. This acreage is in the buffer zone surrounding the Dos Hermanos-Morrow Gas Pool and diagonally offsets to the southwest the new V-F Petroleum well in the SW/4 of Section 21. See attached V-F Petroleum, Inc. Exhibit No. 1.

Edge has determined that it cannot make a well at a standard location 1650 feet from the North and East lines of Section 29. Instead of seeking approval of an unorthodox location for this well, Edge has filed this application seeking an order limiting the Special Rules and Regulations to the current pool boundaries. If Edge's application is granted, there will be one set of rules for the owners and operators in the Dos Hermanos-Morrow Gas Pool and a different set of rules for Edge. V-F Petroleum, Inc. will be required to be

1650 feet from the Edge property but Edge can be 660 feet from the boundary of the spacing units operated by V-F Petroleum. Simply stated, Edge wants to be able to drill three times closer to V-F Petroleum than V-F petroleum can drill, and has drilled, to Edge.

The technical evidence in this case shows that the Morrow formation under the Edge tract and the Dos Hermanos Pool is one common source of supply. It will also show that if Edge makes a good Morrow well, much of the spacing unit it proposes to dedicate to the well will not contribute significant reserves and this is the reason that Edge seeks an unorthodox location. The evidence will establish that if this application is granted, there will be substantial drainage from V-F Petroleum leases. V-F Petroleum has already developed the offsetting property with wells at standard 1650 foot set back locations and will not be able to offset this drainage with counter drainage without wasteful development practices. What Edge proposes will deny V-F Petroleum the opportunity to produce without waste its just and equitable share of the reserves under its tracts and the correlative rights of V-F Petroleum would thereby be impaired.

Edge should be required to develop its acreage under the same rules and regulations that govern other operators in this common reservoir. If Edge cannot drill at a standard location it may seek an unorthodox location under the existing rules -- as V-F Petroleum has done in this area in the past. If the unorthodox location proposed by Edge results in its gaining an advantage on an offsetting operator, the Division/Commission may impose a penalty on the wells ability to produce to offset the advantage gained by virtue of the unorthodox location. See, Rule 104.F(6).

Here Edge has taken an interesting approach to this issue. By seeking a change in pool rules it only had to notify operators of wells in the pool, mineral owners in existing spacing units with producing wells, and operators of wells in the same formation within the one mile of the pool. Rule 1207.A(4). This apparently includes only V-F Petroleum and Brad M. Bennett, Inc. However, if Edge sought approval of an unorthodox well location, it would have had to notify all offsetting operators or working interest owners or mineral owners in the acreage toward which the unorthodox location encroaches. Rule 11207.A(2)(c). This would have included the operator and /or other interest owners in Section 20 to the north. Apparently this has not been done. If Edge sought a non-standard unit, it would have been required to notify all owners of interest in the mineral estate to be excluded from the proration unit. Rule 1207(3). In this case, it appears this would have included Yates Petroleum Corporation, Harvey E. Yates Company and perhaps others. Not only is Edge attempting to gain an advantage on V-F Petroleum, to whom it provided notice, it also appears to trying to affect the mineral interests of other operators and owners without providing them notice of its actions.

Edge has only 280 acres in the buffer zone for the Dos Hermanos-Morrow Gas Pool - only a portion of a single spacing unit. It should operate under the rules that govern other operators in this 7600+-acre buffer zone instead of trying to change the rules to gain an advantage on its neighbor and thereby impair the correlative rights of V-F Petroleum, Inc.

PROPOSED EVIDENCE

WITNESSES

ESTIMATED TIME

EXHIBITS

Louis J. Mazzullo
(Geologist)

Approximately 15 Minutes

Approximately 2

Mr. Mazzullo will review the geology of the area and testify that the Edge acreage and the Dos Hermanos-Morrow Gas Pool are one common source of supply in the Morrow formation.

Roy Williamson
Petroleum Engineer

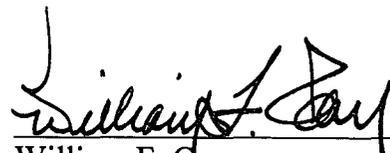
Approximately 15 minutes

Approximately 3

Mr. Williamson will review the drainage data presented by Edge and demonstrate that approval of their application will result in Edge gaining an advantage on the offsetting acreage operated by V-F Petroleum, Inc. in the Dos Hermanos-Morrow Gas Pool.

PROCEDURAL MATTERS

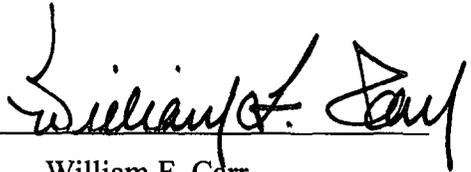
V-F Petroleum Inc. has none at this time.



William F. Carr
Attorney for V-F Petroleum Inc.

CERTIFICATE OF SERVICE

I certify that I have caused a copy of the foregoing Pre-hearing Statement to be delivered to David K. Brooks, Esq. Attorney for the Oil Conservation Commission and to James Bruce, Esq., attorney for Edge Petroleum Exploration Company, by Hand Delivery on this 4th day of March, 2005.


William F. Carr