

HOLLAND & HART^{LLP}



Adam G. Rankin
Associate
Phone 505-954-7294
Fax 505-983-6043
agrarkin@hollandhart.com

December 20, 2011

VIA HAND DELIVERY

Jami Bailey, Director
Oil Conservation Division
New Mexico Department of Energy
Minerals and Natural Resources
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Case 14789

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**Re: Application of Caza Petroleum, Inc. for a Non-Standard Oil and Proration
Unit and Compulsory Pooling, Eddy County, New Mexico**

Dear Ms. Bailey:

Enclosed please find the Application of Caza Petroleum, Inc. in the above-referenced case as well as a copy of the legal advertisement. Applicant requests that this matter be placed on the January 19, 2012 Examiner hearing docket.

Sincerely,

Adam G. Rankin
Associate

AGR

Holland & Hart^{LLP}

Phone [505] 988-4421 Fax [505] 983-6043 www.hollandhart.com

110 North Guadalupe Suite 1 Santa Fe, NM 87501 Mailing Address P.O. Box 2208 Santa Fe, NM 87504-2208

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

**IN THE MATTER OF THE APPLICATION
OF CAZA PETROLEUM, INC. FOR A NON-
STANDARD OIL AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.**

CASE NO.

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APPLICATION

Caza Petroleum, Inc. ("Caza") through its undersigned attorneys, hereby makes application to the Oil Conservation Division pursuant to the provisions of NMSA 1978, Section 70-2-17, for an order: (1) creating a non-standard 160-acre oil spacing and proration unit in the Bone Spring formation, comprised of the W $\frac{1}{2}$ E $\frac{1}{2}$ of Section 27, Township 23 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, which will be the project area for the Forehand Ranch 27 State Well No. 1-H, to be horizontally drilled from a surface location 252 feet from the North line and 1980 feet from the East line (Unit B), to a bottom-hole terminus at a location 330 feet from the South line and 1980 feet from the East line (Unit O) of said Section 27; and (2) pooling all mineral interests in the Bone Spring formation underlying this proposed non-standard spacing and proration unit, and in support thereof, states:

1. Caza is an interest owner in the W $\frac{1}{2}$ E $\frac{1}{2}$ of said Section 27, and has the right to drill a well thereon.

2. Caza proposes to drill its Forehand Ranch 27 State Well No. 1-H to a depth sufficient to test the Bone Spring formation from a surface location 252 feet from the North line and 1980 feet from the East line (Unit B), to a bottom-hole terminus at a

location 330 feet from the South line and 1980 feet from the East line (Unit O) of said Section 27. The entire completed producing interval of the proposed well, from the penetration point to the bottom-hole location, will have standard locations within the producing area.

3. Caza seeks to dedicate the $W\frac{1}{2} E\frac{1}{2}$ of Section 27 to the proposed well to form a non-standard 160-acre oil spacing and proration unit (the "project area").

4. Caza has sought but been unable to obtain a voluntary agreement from all mineral interest owners in the $W\frac{1}{2} E\frac{1}{2}$ of said Section 27 to participate in the drilling of the well or to otherwise commit their interests to the well. Caza, therefore, seeks an order pooling all mineral interest owners underlying the $W\frac{1}{2} E\frac{1}{2}$ of Section 27, pursuant to NMSA 1978, Sections 70-2-17 and -18.

5. Approval of the non-standard unit and the pooling of all mineral interests underlying the $W\frac{1}{2} E\frac{1}{2}$ of said Section 27 will prevent the drilling of unnecessary wells, prevent waste, and protect correlative rights.

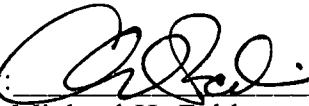
WHEREFORE, Caza requests that this application be set for hearing before an Examiner of the Oil Conservation Division on January 19, 2012, and, after notice and hearing as required by law, the Division enter its order:

- A. Creating a non-standard oil spacing and proration unit ("project area") in the Bone Spring formation comprised of the $W\frac{1}{2} E\frac{1}{2}$ of Section 27, Township 23 South, Range 27 East, N.M.P.M., Eddy County, New Mexico;
- B. Pooling all mineral interests in the subject spacing and proration units;
- C. Designating Caza as operator of this unit and the well to be drilled thereon;

- D. Considering the cost of drilling and completing the well, and allocating the cost among the well's working interest owners and authorizing Caza to recover its costs of drilling, equipping and completing the well;
- E. Approving actual operating charges and costs charged for supervision, together with a provision adjusting the rates pursuant to the COPAS accounting procedure; and
- F. Setting a 200% charge for the risk involved in drilling and completing the well in the event a working interest owner elects not to participate in the well.

Respectfully submitted,

HOLLAND & HART LLP

By: 

Michael H. Feldewert

Adam G. Rankin

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

Phone: (505) 988-4421

Facsimile: (505) 983-6043

ATTORNEYS FOR CAZA PETROLEUM, INC.

CASE 14789:

Application of Caza Petroleum, Inc. for a non-standard spacing and proration unit and compulsory pooling, Eddy County, New Mexico. Applicant in the above-styled cause seeks an order: (1) creating a non-standard 160-acre oil spacing and proration unit in the Bone Spring formation, comprised of the W $\frac{1}{2}$ E $\frac{1}{2}$ of Section 27, Township 23 South, Range 27 East, N.M.P.M., Eddy County, New Mexico, which will be the project area for the Forehand Ranch 27 State Well No. 1-H, to be horizontally drilled from a surface location 252 feet from the North line and 1980 feet from the East line (Unit B), to a bottom-hole terminus at a location 330 feet from the South line and 1980 feet from the East line (Unit O) of said Section 27; and (2) pooling all mineral interests in the Bone Spring formation underlying this proposed non-standard spacing and proration unit. The entire completed producing interval of the proposed well, from the penetration point to the bottom-hole location, will have standard locations within the producing area. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of Caza Petroleum, Inc. as operator of the well and a 200% charge for risk involved in drilling said well. Said area is located approximately 5 miles west of Loving, New Mexico.