

**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 NOV 2005**

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**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.**

**RESPONSE OF V-F PETROLEUM, INC.
TO EDGE PETROLEUM EXPLORATION COMPANY'S
APPLICATION FOR REHEARING**

In response to the application for Rehearing filed in this case by Edge Petroleum Exploration Company ("Edge") V-F Petroleum, Inc. ("V-F") states:

BACKGROUND:

1. The Dos Hermanos-Morrow Gas Pool was created by Oil Conservation Division Order No. R-2938 dated 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.
2. 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.
3. In July 2004, Edge acquired an interest in a single 280-acre tract that, because it was in the buffer zone surrounding the Dos Hermanos-Morrow Gas Pool, was governed

by the Special Pool Rules for this pool. This acreage is located in the N/2 of Section 29, Township 20 South, Range 30 East, NMPM and diagonally offsets to the southwest the new V-F Petroleum, Inc. well in the SW/4 of Section 21.

4. Edge has claimed 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 filed this application seeking an order limiting the Special Rules and Regulations to the current pool boundaries.

5. If Edge's application had been granted there would have been 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. has drilled a good Morrow well 1650 feet from the Edge property but, if successful, Edge could have been 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.

6. The technical evidence in this case showed that the Morrow formation under the Edge tract and the Dos Hermanos-Morrow Gas Pool is one common source of supply. It showed that if Edge made a good Morrow well, much of the spacing unit it proposes to dedicate to the well will not contribute significant reserves. The evidence also established that if this application had been granted, there would have been substantial drainage from V-F Petroleum leases. Since V-F Petroleum has already developed the offsetting property with wells at standard 1650 foot set back locations it would not be able to offset this drainage with counter drainage without wasteful development practices. What Edge proposed would have denied 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.

7. The Oil Conservation Commission granted the application of Edge and limited the Special Pool Rules and Regulations for the Dos Hermanos-Morrow Gas Pool to the pool boundaries but also required that wells outside the pool be located no closer than 1650 feet to the Pool boundary. By so doing, the Division acted to protect the correlative rights of V-F.

RESPONSE TO ARGUMENTS FOR REHEARING:

In support of its Application for Rehearing, Edge cites Order No. R-11231 in which the Commission amended its Statewide Rules to (1) authorize two wells on each 320-acre deep gas unit and (2) relaxed the well location requirements so new wells could be drilled 660 feet from a quarter section line. Edge contends that it is trying to do in a small area what the Commission did statewide with Order No. R-11231.

Edge overstates the effect of Order No. R-11231. While the Commission amended its statewide rules it was careful not to overturn the special pool rules and regulations that govern specific pools – like the Special Pool Rules and Regulations for the Dos

Hermanos-Morrow Gas Pool. The Commission's Summary of Order No. R-11231 attached to Edge's Application states:

"Any existing special pool rule or other order specific to well locations (e.g., a production penalty on an unorthodox well location now standard under amended Rule 104) shall remain in force and effect until the order is amended." Emphasis added.

This order itself provides:

(9) Opportunity is available to adopt or amend special pool orders to limit the number of wells per unit and /or require different setbacks to prevent waste and/or protect correlative rights." Emphasis added.

Accordingly, an accurate reading of Order No. R-11231 is that, while the statewide rules were amended, existing special pool rules remain in force and the well location requirements of these special pool rules can be amended if it is shown that correlative rights will not be impaired.

Here the evidence established that if Edge's application had been granted, Edge would have gained an advantage on V-F Petroleum and that the correlative rights of V-F would have been impaired. The Commission therefore, correctly acted to protect the correlative rights of V-F Petroleum, Inc.

Edge advances a lame argument when states that there is no reason to have special setback requirements in this case since there have been no cases filed with the Division since order R-11231 was adopted "to 'protect' previously drilled wells from any adverse effects caused by new wells drilled thereafter...." Just because correlative rights have not been impaired in other cases, does not mean they will not be impaired by what Edge is proposing here. Here Edge appears to be trying to cite no precedent as a precedent.

Edge points out that the operators of other sections did not object to its application¹ and states that "An operator has an affirmative duty to protect its own correlative rights..." Here V-F Petroleum, Inc. has met that affirmative duty by appearing in this case in opposition to Edge.

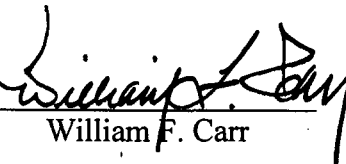
Edge concludes its argument by waiving the flag and proclaiming: "There is no reason to hold 12 sections of land (7680 acres) adjoining the Pool hostage to protect one well which is capable of protecting itself." Perhaps a more accurate statement would be: "There is no need to change the Special Pool Rules and put at risk the correlative rights of the mineral owners of thousands of acres in the Pool just to enable Edge to avoid having to do what every responsible operator would do -- seek approval of an unorthodox well location pursuant to Division rules."

¹ In fact, the operator of the sections cited is McRae & Henry, Ltd. who, through V-F Petroleum, Inc., has in fact objected to this application.

CONCLUSION:

The Commission should stand on its order and take no action on the Application for Rehearing. Edge should thereafter be required to develop its acreage under the same rules and regulations that govern the offsetting V-F Petroleum acreage. If Edge concludes that it 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.

Respectfully submitted,
Holland & Hart, LLP

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CERTIFICATE OF SERVICE

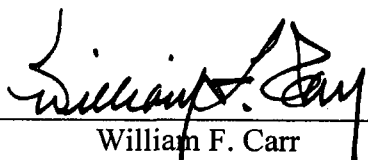
I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 16th day of May, 2005:

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