

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

APPLICATION OF HAYES LAND & PRODUCTION, LP TO APPROVE A NON-STANDARD 80-ACRE OIL SPACING AND PRORATION UNIT OR AN 80-ACRE PROJECT AREA, OR IN THE ALTERNATIVE TO RESCIND DIVISION ORDER NO. R-12459, EDDY COUNTY, NEW MEXICO.

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Case No. 13778

AMENDED APPLICATION

Hayes Land & Production, LP applies for an order establishing an 80-acre non-standard oil spacing and proration unit or an 80-acre project area in the Delaware and Bone Spring formations, comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, Township 22 South, Range 26 East, N.M.P.M., or in the alternative for an order rescinding Division Order No. R-12459, and in support thereof, states:

1. Applicant is a mineral owner in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11.
2. Division Order No. R-12459, issued in Case No. 13594, approved an unorthodox oil well location in the Delaware and Bone Spring formations for the Mesa Grande "11" Well No. 2, located 2661 feet from the South line and 660 feet from the west line of Section 11. The well was drilled and is operated by Kaiser-Francis Oil Company ("Kaiser-Francis"), and is located 19 feet south of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11. The Delaware and Bone Spring formations are developed on 40-acre "statewide" spacing.
3. The Mesa Grande "11" Well No. 2 was originally drilled to test the Strawn and Morrow formations, and the unorthodox location in those formations was approved by Division Administrative Order NSL-5133. Administrative Order NSL-5133 provided that any amendment to the order to include other formations must be set for hearing.

4. In Case No. 13594, Kaiser Francis requested the Division to amend Administrative Order NSL-5133 to include the Delaware and Bone Spring formations, and to form a non-standard 80 acre unit in those two zones comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, as an exception to Division Rule 104(B).

5. At the hearing in Case No. 13594, Kaiser-Francis dismissed that portion of its application requesting a non-standard 80-acre unit. This request was based on testimony by Kaiser-Francis stating that:

- (a) Interest ownership in the Mesa Grande "11" Well No. 2 is the same regardless of whether a 40-acre unit (comprised of the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11), or an 80-acre unit (comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11), is formed;
- (b) All interest owners in the W $\frac{1}{2}$ of Section 11 were notified of the hearing; and
- (c) Approval of the unorthodox location in the Delaware and Bone Spring formations will not violate correlative rights.

Order No. R-12459, Finding Paragraphs (9)-(12).

6. Applicant owns a mineral interest in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11, but not in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, nor was it notified of the hearing in Case No. 13549. Moreover, Kaiser-Francis has filed an application with the Division, set for hearing on September 14, 2006 (Case No. 13771), requesting an increase in spacing in the Bone Spring formation. The application states that the Mesa Grande "11" Well No. 2 is capable of draining in excess of 40 acres. Therefore, Finding Paragraphs (9)-(12) of Order No. R-12459 are incorrect and the order was improperly granted.

7. Due to the foregoing, an 80-acre well unit in the Bone Spring and Delaware formations, comprised SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, should be approved effective

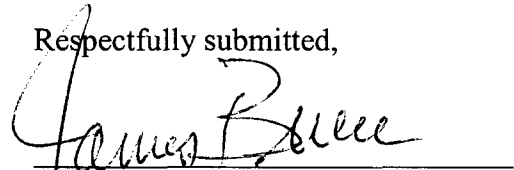
as of the date of first production. Approval should be granted either as an exception to Division Rule 104(B), or under Division Rule 111.

8. Applicant does not object to the unorthodox location in the Delaware and Bone Spring formations, provided that an 80-acre well unit as described above is formed. However, if that is not done, then Order No. R-12459 must be rescinded and the Mesa Grande "11" Well No. 2 must be shut-in, or production proceeds must be held in escrow, pending a resolution of this case.

9. The granting of this application will prevent waste and protect correlative rights.

WHEREFORE, applicant requests that, after hearing, the Division enter its order approving the relief requested herein.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Bruce", is written over a horizontal line.

James Bruce
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Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Hayes Land & Production, LP

JAMES BRUCE
ATTORNEY AT LAW

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August 15, 2006

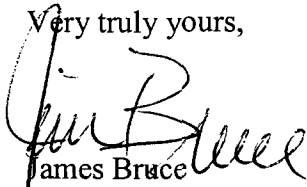
Florene Davidson
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Case 13778

Dear Florene:

Enclosed for filing, on behalf of Hayes Land & Production, LP, are an original and one copy of an application for a non-standard unit, *etc.*, together with a proposed advertisement. The advertisement has also been e-mailed to the Division. Please set this matter for the September 14, 2006 Examiner hearing. Thank you.

Very truly yours,


James Bruce

Attorney for Hayes Land & Production, LP

BEFORE THE NEW MEXICO OIL CONSERVATION DIVISION

**APPLICATION OF HAYES LAND &
PRODUCTION, LP TO APPROVE A
NON-STANDARD 80-ACRE OIL SPACING
AND PRORATION UNIT OR AN 80-ACRE
PROJECT AREA, OR IN THE ALTERNATIVE
TO RESCIND DIVISION ORDER NO. R-12459,
EDDY COUNTY, NEW MEXICO.**

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Case No. 13778

APPLICATION

Hayes Land & Production, LP applies for an order establishing an 80-acre non-standard oil spacing and proration unit or an 80-acre project area in the Delaware and Bone Spring formations, comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, Township 22 South, Range 26 East, N.M.P.M., or in the alternative for an order rescinding Division Order No. R-12459, and in support thereof, states:

1. Applicant is an unleased mineral owner in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11.
2. Division Order No. R-12459, issued in Case No. 13594, approved an unorthodox oil well location in the Delaware and Bone Spring formations for the Mesa Grande "11" Well No. 2, located 2661 feet from the South line and 660 feet from the west line of Section 11. The well was drilled and is operated by Kaiser-Francis Oil Company ("Kaiser-Francis"), and is located 19 feet south of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11. The Delaware and Bone Spring formations are developed on 40-acre "statewide" spacing.
3. The Mesa Grande "11" Well No. 2 was originally drilled to test the Strawn and Morrow formations, and the unorthodox location in those formations was approved by Division Administrative Order NSL-5133. Administrative Order NSL-5133 provided that any amendment to the order to include other formations must be set for hearing.

4. In Case No. 13594, Kaiser Francis requested the Division to amend Administrative Order NSL-5133 to include the Delaware and Bone Spring formations, and to form a non-standard 80 acre unit in those two zones comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, as an exception to Division Rule 104(B).

5. At the hearing in Case No. 13594, Kaiser-Francis dismissed that portion of its application requesting a non-standard 80-acre unit. This request was based on testimony by Kaiser-Francis stating that:

- (a) Interest ownership in the Mesa Grande "11" Well No. 2 is the same regardless of whether a 40-acre unit (comprised of the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11), or an 80-acre unit (comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11), is formed;
- (b) All interest owners in the W $\frac{1}{2}$ of Section 11 were notified of the hearing; and
- (c) Approval of the unorthodox location in the Delaware and Bone Spring formations will not violate correlative rights.

Order No. R-12459, Finding Paragraphs (9)-(12).

6. Applicant owns a mineral interest in the SW $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 11, but not in the NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, nor was it notified of the hearing in Case No. 13549. Moreover, Kaiser-Francis has filed an application with the Division, set for hearing on September 14, 2006 (Case No. _____), requesting an increase in spacing in the Bone Spring formation. The application states that the Mesa Grande "11" Well No. 2 is capable of draining in excess of 40 acres. Therefore, Finding Paragraphs (9)-(12) of Order No. R-12459 are incorrect and the order was improperly granted.

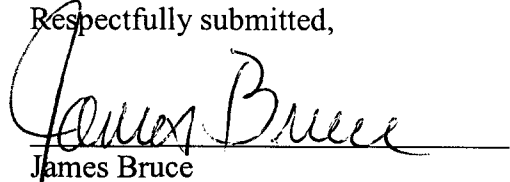
7. Due to the foregoing, an 80-acre well unit in the Bone Spring and Delaware formations, comprised SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, should be approved. Approval should be granted either as an exception to Division Rule 104(B), or under Division Rule 111.

8. Applicant does not object to the unorthodox location in the Delaware and Bone Spring formations, provided that an 80-acre well unit as described above is formed. However, if that is not done, then Order No. R-12459 must be rescinded and the Mesa Grande "11" Well No. 2 must be shut-in, or production proceeds must be held in escrow, pending a resolution of this case.

9. The granting of this application will prevent waste and protect correlative rights.

WHEREFORE, applicant requests that, after hearing, the Division enter its order approving the relief requested herein.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Bruce", is written over a horizontal line.

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Hayes land & Production, LP

PROPOSED ADVERTISEMENT

Case No. 13778: Application of Hayes Land & Production, LP to approve a non-standard 80-acre oil spacing and proration unit or an 80-acre project area, or in the alternative to rescind Division Order No. R-12459, Eddy County, New Mexico. Applicant requests an order establishing an 80-acre non-standard oil spacing and proration unit as an exception to Division Rule 104(B), or an 80-acre project area under Division Rule 111, in the Delaware and Bone Spring formations, comprised of the SW $\frac{1}{4}$ NW $\frac{1}{4}$ and NW $\frac{1}{4}$ SW $\frac{1}{4}$ of Section 11, Township 22 South, Range 26 East, N.M.P.M., to be dedicated to the Mesa Grande "11" Well No. 2, located at an unorthodox location 2661 feet from the south line and 660 feet from the west line (Unit L) of Section 11. In the alternative, applicant requests that Division Order No. R-12459, granting said unorthodox location, be rescinded and the well shut-in. The proposed unit is located approximately 2-1/2 miles west of Carlsbad, New Mexico.

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