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September 26, 2006

HAND DELIVERED

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

Case No. 13771: (Re-advertised.) AMENDED APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR PROMULGATION OF SPECIAL POOL RULES FOR THE EAST HAPPY VALLEY BONE SPRING POOL, FOR AN EXCEPTION TO THE GAS-OIL RATIO LIMITATION, AND ASSIGNMENT OF A SPECIAL DEPTH BRACKET ALLOWABLE, EDDY COUNTY, NEW MEXICO.

Dear Florene:

Enclosed for filing is an original and two copies of an amended application in the above-referenced matter. Also enclosed is a proposed advertisement in hard-copy and on disk.

On behalf of the Applicant, we ask that this matter be set for hearing on the October 26, 2006 examiner hearing docket.

Thank you.

Very Truly Yours,



J. Scott Hall

cc: James Bruce, Esq.
William F. Carr, Esq.

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2006 SEP 26 PM 4 02

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

2006 SEP 26 PM 4 02

**IN THE MATTER OF THE APPLICATION
OF KAISER-FRANCIS OIL COMPANY FOR
PROMULGATION OF SPECIAL POOL RULES
FOR THE EAST HAPPY VALLEY BONE SPRING
POOL, FOR AN EXCEPTION TO THE GAS-OIL
RATIO LIMITATION, AND ASSIGNMENT OF
A SPECIAL DEPTH BRACKET ALLOWABLE
EDDY COUNTY, NEW MEXICO**

CASE NO. 13771

AMENDED APPLICATION

Kaiser-Francis Oil Company by its undersigned attorneys, Miller Stratvert P.A. (J. Scott Hall) hereby makes application for an order of the Division promulgating special pool rules establishing 160-acre spacing and proration units with the option for a second well and designated well locations in the Second Bone Spring limestone zone within the East Happy Valley Bone Spring Pool comprised of the W/2 of Section 11, T22S, R26E, NMPM, Eddy County, New Mexico. Applicant further seeks an exception from the gas oil ratio limitation under Division Rule 506 A that would permit wells drilled within the proration unit within the pool to produce up to a GOR limitation of four thousand cubic feet of gas for each barrel of oil produced, along with a depth bracket allowable for 160-acre units of 382 barrels of oil per day under Division Rule 505. In support thereof, Applicant would show the Division:

1. Applicant is the operator of the Mesa-Grande 11 Well No. 2 (API No. 30-015-3720) drilled in the undesignated Happy Valley Strawn Gas Pool (78060) and the South Carlsbad Morrow Gas Pool (73960) at an unorthodox deep gas well location 2661' FSL and 660' FWL (Unit L) of Section 11, T22S, R26E.

2. The unorthodox deep gas well location for the Mesa-Grande 11 Well No. 2 was authorized by the Division's Administrative Order NSL-5133 issued on November 17, 2004. Efforts to complete the Mesa-Grande 11 Well No. 2 in the Morrow and Strawn formations were unsuccessful due to mechanical failure. Consequently, Applicant obtained the Division's authorization to complete the Mesa-Grande 11 Well No. 2 in the Delaware and/or Bone Spring intervals. (Case No. 13594; Order No. R-12459, December 1, 2005.)

3. In January 2006, Applicant recompleted the Mesa-Grande 11 Well No. 2 in the Second Bone Spring Limestone formation with perforations in the interval between 6321' and 6426'.

4. Geologic and engineering data obtained from the Mesa-Grande 11 Well No. 2 show that the well is located in a new common source of supply and to efficiently produce the reserves from this new pool, special acreage dedication and well location requirements are appropriate. The subject well is capable of draining areas in excess of the standard 40-acre unit assigned to the well under the Division's statewide rules.

5. PVT and other data obtained from the well indicate the discovery of an oil reservoir immediately overlaying a gas reservoir. Production and cased hole logs indicate that the Second Bone Spring Limestone oil and gas reservoirs are vertically communicated and cannot be isolated in the wellbore with a packer. Formation permeability is relatively high and indicates that the reservoir is best developed on 160-acre spacing units. Development of the reservoir with spacing units smaller than 160-acres would result in the inefficient recovery of hydrocarbon resources.

6. As a result of the producing characteristics of this reservoir, 160-acre well spacing and acreage dedication requirements are indicated, along with 330' designated well location

setbacks. At the current rate of production of 100 BOPD with the existence of the underlying gas reservoir, wells in the 160-acre proration units being proposed could not be efficiently produced under the restriction of the statewide gas oil ratio limitation of 2000 cubic feet of gas for each barrel of oil produced. Allowing wells in the proration unit to produce up to a GOR limitation of 4000 cubic feet of gas for each barrel of oil produced and with a commensurate increase of the depth bracket allowable to 382 barrels of oil per day for the 160-acre spaced unit will enable the operator of the pool to more efficiently produce the hydrocarbons within the reservoir and is otherwise in the interest of conservation, the prevention of waste and the protection of correlative rights.

8. Applicant proposes that the vertical limits of the pool in the W/2 of Section 11 conform to the stratigraphic equivalent of the Second Bone Springs Limestone interval occurring between 6,312 and 6,452' as shown on the open hole logs of the Mesa Grande 11 Well No. 2.

9. Applicant seeks the promulgation of special pool rules and regulations which provide for spacing units in the Second Bone Spring Limestone formation comprised of 160-acre units with the option for a second well with wells to be located no closer than 330' from the outer boundary of the quarter section on which the well is located and no closer than 10' to any quarter-quarter section line or inner boundary subdivision. Applicant further proposes to have the horizontal boundaries of the new pool to be comprised of the W/2 of Section 11, T22S, R26E and that standard 160-acre \pm spacing units within the pool consist of the W/2 W/2, and E/2 W/2 of said Section 11.

10. The proposed special pool rules would not apply to otherwise undesignated portions of the Bone Springs Formation within one mile of the pool boundaries for the East Happy Valley Bone Spring Pool. Further, the special pool rules would not apply to any well

within the Bone Spring formation not capable of producing at rates exceeding 568 Mcf per day and the 142 barrels of oil per day (maximum depth-bracket allowable for oil wells) The Division's statewide rules for 40-acre oil wells would apply to such wells.

11. Applicant also proposes that Second Bone Spring Limestone formation completions within one mile of the W/2 of Section 11, may receive administrative approval to be spaced on 160 acre governmental quarter sections rather than statewide 40 acre spacing if the well is capable of producing in excess 568 MCF/D which is the 40 acre maximum gas production rate for a 40 acre oil well with a GOR limitation of 4,000 standard cubic feet of gas per barrel of oil produced (allowable of 142 BOPD).

12. The adoption of special pool rules and regulations for the new pool is necessary and appropriate for the orderly and efficient development of Second Bone Spring Limestone formation reserves. Second Bone Spring Limestone formation oil reserves in the vicinity are best developed and produced on 160-acre units so that the unnecessary dissipation of reservoir energy, the violation of correlative rights, a reduction of the ultimate recovery reserves and the drilling of unnecessary wells may be avoided.

WHEREFORE, Kaiser-Francis Oil Company request this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on October 26, 2006 and that after notice and hearing as required by law and the Rules of the Division, the Division enter its order granting this Amended Application and providing such other relief as deemed appropriate.

Respectfully submitted,

J. Scott Hall

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Case No. 13771: (Re-advertised.) AMENDED APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR PROMULGATION OF SPECIAL POOL RULES FOR THE EAST HAPPY VALLEY BONE SPRING POOL, FOR AN EXCEPTION TO THE GAS-OIL RATIO LIMITATION, AND ASSIGNMENT OF A SPECIAL DEPTH BRACKET ALLOWABLE, EDDY COUNTY, NEW MEXICO. Applicant seeks an order establishing special pool rules for the East Happy Valley Bone Spring Pool comprised of the W/2 of Section 11, Township 22 South, Range 26 East, NMPM providing for 160-acre spacing and proration units with the option for a second well and designated well locations, including 330' setback requirements. Applicant also seeks an exception from the gas oil ratio limitation under Division Rule 506 A that would permit wells drilled within each proration unit within the pool to produce up to a GOR limitation of four thousand cubic feet of gas for each barrel of oil produced, along with an increase in the depth bracket allowable to 382 under Division Rule 505. Applicant proposes that the applicability of the special pool rules be limited to the W/2 of said Section 11. Applicant is the operator of the Mesa-Grande 11 Well No. 2 (API No. 30-015-3720) completed in the Second Bone Spring formation at a location 2661' FSL and 660' FWL (Unit L) of Section 11, T22S, R26E. The well and lands are located approximately ½ mile southwest of Carlsbad, New Mexico.