

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

2006 SEP 7 PM 3 48

**IN THE MATTER OF THE APPLICATION
OF KAISER-FRANCIS OIL COMPANY FOR
POOL CREATION, PROMULGATION OF
SPECIAL POOL RULES, FOR AN EXCEPTION
TO THE GAS OIL RATIO LIMITATION AND
SUSPENSION OF DRILLING PERMITS,
EDDY COUNTY, NEW MEXICO**

CASE NO. 13771

PRE-HEARING STATEMENT

This Pre-Hearing Statement is submitted by Miller Stratvert P.A. (J. Scott Hall) on behalf of Kaiser-Francis Oil Company, as required by the Oil Conservation Division.

APPEARANCES

APPLICANT'S ATTORNEY

J. Scott Hall, Esq.
Miller Stratvert P.A.
Post Office Box 1986
Santa Fe, New Mexico 87504-1986

APPLICANT

Kaiser-Francis Oil Company

OPPONENT'S ATTORNEY

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504

OPPONENT

Hayes Land & Production, LP

William F. Carr, Esq.
Post Office Box 2208
Santa Fe, New Mexico 87504

Marbob Energy Corporation

WST 9/11/06

STATEMENT OF THE CASE

APPLICANT

Applicant may request that Case No. 13771, Case No. 13594 and Case No. 13778 be consolidated for hearing as all three cases involve the same subject matter, lands and well.

Applicant's Mesa Grande 11 Well No. 2 was originally drilled to the Morrow and Strawn formations at a location 2661' FSL and 660' FWL (Unit L) of Section 11, T22S, R26E. Completions in those formations were unsuccessful due to mechanical failure. Applicant subsequently sought authorization to complete the well in the Bone Spring and Delaware formations.

In the first of this series of cases (Case No. 13594), Applicant sought authorization to add the Bone Spring and Delaware formations pursuant to the provisions of pre-existing Administrative Order NSL 5133 which required that any application to include additional formations of pool be set for hearing. Among other things, the application sought authorization for the resulting unorthodox location which is 19' FNL of the SW/4 of Section 11 and further proposed the establishment of an 80-acre non-standard spacing unit consisting of the SW/NW and NW/SW of the section. On December 1, 2005, the Division entered Order No. R-12459 approving of the unorthodox well location but determining that the creation of an 80-acre non-standard unit was unnecessary.

Although it was not required to do so, Applicant provided notice of its application to all interest owners of record, including the royalty interest owners in the W/2 of Section 11. Among those owners receiving notice was Hayes Land Corporation. Following the entry of Order No. 12459, the undersigned received notice that one royalty interest owner, Hayes Land and Production Corporation, would challenge the issuance of Order No. 12459 for the reason that it was not notified. On August 15, 2006 the Applicant filed its Motion to Re-open Case No. 13594 in order to allow Hayes Land and Production Corporation the opportunity to present its objections to the unorthodox well location.

Subsequently, Hayes Land and Production, LP filed its application in Case No. 13778 seeking approval of a non-standard 80-acre oil spacing and proration unit or project area, or alternatively, to rescind Division Order No. R-12459. Hayes Land and Production also seeks to have the subject well shut-in.

Following completion and testing of the Mesa Grande 11 Well No. 2, Kaiser-Francis Oil Company filed its application in Case No. 13771 seeking an order creating a new pool in the second Bone Spring formation comprised of the W/2 of Section 11 and for the promulgation of special pool rules establishing 320-acres spacing and proration units with the option for a second well and designated well locations appropriate for a 320-acre unit. Applicant also seeks an exception from the gas oil ratio limitation under Rule 506(A) that would permit wells drilled within the pool to produce up to a GOR limitation of 3000 cubic feet of gas for each barrel of oil produced. Geologic and engineering data obtained from the Mesa Grande 11 Well No. 2 indicate the discovery of a relatively small oil reservoir with a large gas column produced from a formation with relatively high permeability. Correspondingly, the well is capable of draining

areas in excess of the standard 40-acre unit that would otherwise be assigned to the well under statewide rules. Kaiser-Francis also proposed 660' well location setbacks and the temporary suspension of approvals for applications for permits to drill within the vertical and horizontal boundaries of the proposed pool and within the undesignated portions of the pool at any locations inconsistent with the 660' well locations setback requirement being proposed pending the Division's disposition of the three related cases.

PROPOSED EVIDENCE

WITNESSES:

Jim Wakefield (Petroleum Engineer)

Est. Time

1 hour

No. of Exhibits

11

PROCEDURAL MATTERS

MILLER STRATVERT P.A.

By:


J. Scott Hall

Attorneys for Kaiser-Francis Oil Company
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

Certificate of Service

I hereby certify that a true and correct copy of the foregoing was faxed or hand-delivered to counsel of record on the 7 day of September, 2006, as follows:

Gail MacQuesten, Esq.
New Mexico Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87504
(505) 476-3462/Facsimile

William F. Carr, Esq.
Holland & Hart, LLP
Post Office Box 2208
Santa Fe, New Mexico 87504
(505) 988-983-6043/Facsimile

HAND-DELIVERED

James Bruce, Esq.
Post Office Box 1056
Santa Fe, New Mexico 87504


J. Scott Hall