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Attorney at Law

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July 9, 2007

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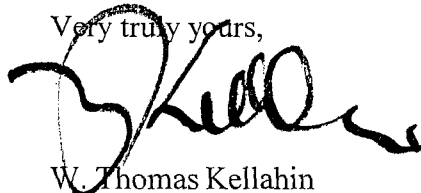
Mr. Mark Fesmire, P.E., Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Application of Parallel Petroleum Corporation
for authorization to simultaneously dedicate
a standard gas spacing and proration unit in the
Wolfcamp formation to two horizontal wellbores,
including an exception to the well density requirement
of Division Rule 104.D, Chaves County, New Mexico
S/2 Section 16, T15S, R25E
Swale 1525-16 State Well No. 1 and 2

Dear Ms. Fesmire:

On behalf of Parallel Petroleum Corporation, please find enclosed our
referenced application which we request be set for hearing on the Examiner's
docket now scheduled for August 29, 2007. Also enclosed is our proposed
advertisement of this case for the NMOCD docket.

Very truly yours,


W. Thomas Kellahin

cc: Parallel Petroleum Corporation
Attn: Mike Gray

Case 13965

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CASE 13965: Application of Parallel Petroleum Corporation for authorization to simultaneously dedicate a standard gas spacing and proration unit in the Wolfcamp formation to two horizontal wellbores including an exemption to the well density requirements of Rule 104.D, Chaves County, New Mexico. Applicant seeks authorization to dedicate a standard 320-acre spacing and proration unit comprised of the S/2 of Section 16, Township 15 South, Range 25 East, Chaves County, New Mexico in the Wolfcamp formation to the following two wells:

- (a) The Swale 1525-16 State Well No. 2 (API #3000563924) to be drilled at an unorthodox surface location 760 feet FSL and 190 feet FWL (Unit M) and then to penetrate the Wolfcamp formation within the standard producing area window at a standard subsurface location approximately 660 feet FWL and 760 feet FSL (Unit M) and then drilled horizontally in an easterly direction staying within the producing area not less than 660 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 760 feet FSL and 660 feet FEL, and
- (b) The Swale 1525-16 State Well No. 1 (API #3000563886) that has been drilled at an unorthodox surface location 1880 feet FSL and 208 feet FWL (Unit L) and penetrated the Wolfcamp formation within the standard producing area window at a standard subsurface location approximately 660 feet FWL and 660 feet FSL (Unit L) and then was drilled horizontally in an easterly direction staying within the producing area not less than 660 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1880 feet FSL and 660 feet FEL.

These wells are located approximately 10 miles southwest of the Hagerman, New Mexico.

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

**IN THE MATTER OF THE APPLICATION OF
PARALLEL PETROLEUM CORPORATION FOR
AUTHORIZATION TO SIMULTANEOUSLY
DEDICATED A STANDARD SPACING AND
PRORATION UNIT IN THE WOLFCAMP
FORMATION TO TWO HORIZONTAL WELLS
INCLUDING AN EXEMPTION TO THE WELL
DENSITY REQUIREMENT OF RULE 104.D,
CHAVES COUNTY, NEW MEXICO.**

CASE NO. 13965

APPLICATION

Parallel Petroleum Corporation ("Parallel") by its attorneys, Kellahin & Kellahin, seeks approval to simultaneously dedicate a standard gas spacing and proration unit in the Wolfcamp formation to two horizontal wellbores including an exemption to the well density requirements of Rule 104.D, Chaves County, New Mexico. Applicant seeks authorization to dedicate a standard 320-acre spacing and proration unit comprised of the S/2 of Section 16, Township 15 South, Range 25East, Chaves County, New Mexico in the Wolfcamp formation to the following two wells:

(a) The Swale 1525-16 State Well No 2 (API #3000563924) to be drilled at an unorthodox surface location 760 feet FSL and 190 feet FWL (Unit M) and then to penetrate the Wolfcamp formation within the standard producing area window at a standard subsurface location approximately 660 feet FWL and 760 feet FSL (Unit M) and then drilled horizontally in an easterly direction staying within the producing area not less than 660 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 760 feet FSL and 660 feet FEL

(b) The Swale 1525-16 State Well No. 1 (API #3000563886) that has been drilled at an unorthodox surface location 1880 feet FSL and 208 feet FWL (Unit L) and penetrated the Wolfcamp formation within the standard producing area window at a standard subsurface location approximately 660 feet FWL and 660 feet FSL (Unit L) and then was drilled horizontally in an easterly direction staying within the producing area not less than 660 feet from each of the end and side boundaries of this spacing unit and ending at a standard bottom hole location 1880 feet FSL and 660 feet FEL

In support of its application, Parallel states:

- (1) Parallel is the current operator of the Swale 1525-16 State Well No. 1 (API #3000563886) that has been drilled and completed as a horizontal well in the N/2S/2 of Section 16, T15S, R25E. **See Exhibit "A" attached**
- (2) Parallel has obtained approval of its APD to drill second horizontal well in the S/2S/2 of Section 16, T15S, R25E being the Swale 1525-16 Well No. 2 (API #3000563924). **See Exhibit "B" attached**
- (3) Division Rule 111 provides for the rules and regulations of the drilling of directional wells and by definition includes "horizontal" wells but apparently does not limited the number of horizontal wells that can be drilled within a Project Area. Instead Rule 111 refers to a project area "that is enclosed by the outer boundaries of a spacing unit or a combination of complete spacing units," and incorporates by reference Rule 104 to define a "spacing unit"
- (4) Division Rule 104.C (2) allows two wells in a 320-acre spacing unit with each well located in a different 160-tract of the 320-acre spacing unit. This rule appears not to specifically address horizontal wells.
- (5) Division Rule 104.D (3) States: "number of wells per spacing unit. Exceptions to the provisions of statewide rules or special pool orders concerning the number of wells allowed per spacing unit may be permitted by the Director only after notice and opportunity for hearing. Notice shall be given to those "affected parsons" defined by Rule 1207.A (2)."
- (6) The Division Legal Examiner, David K. Brooks, has advised the notice for this type of case, "affected parties" are: (a) all each operator of an adjoining and offsetting 320-acre drilled or undrilled spacing units (direct or diagonal offsets) (b) if undrilled, then to the working interest owners and unleased mineral owners, (c) if applicant is also the offsetting operator, then to its working interest owners, (d) if applicant is the offsetting operator and the only working interest owners, then to its lessors, (e) if the offsetting section has no spacing unit, then the applicant and presume the orientation closest to the subject spacing unit.

- (7) Parallel will provide written notice of hearing to all "affected parties, including those listed on **Exhibit "C" attached.**
- (8) Parallel will demonstrate that because of the low permeability of the Wolfcamp formation in this area:
- a. the actual area being depleted by the first horizontal well is generally limited to the north half of this spacing unit, being the N/2S/4 of Section 16, and it not effectively recovery either the gas underlying the S/2 of Section 16 or adversely affecting the correlative rights of the offsetting interest owners.
 - b. A second horizontal well is needed by the south half of this spacing unit, being the S/2S/2 of Section 16, in order to provide a opportunity to recovery gas that might otherwise not be recovered under the S/2 of Section 16 and in doing so will not adversely affect the correlative rights of the offsetting interest owners.
- (1) Approval of this application will not impair the correlative rights of any other interest owner in the area and will afford Parallel the opportunity to utilize two horizontal wells to produce the Wolfcamp formation gas reserves from this GPU.
- (2) Approval of this application will be in the best interests of conversations, the prevention of waste and the protection of correlative rights.

WHEREFORE, Parallel Petroleum Corporation requests that this application be set for hearing before an Examiner of the Oil Conservation Division on August 9, 2007 and after notice and hearing as required by law, the Division enter its order granting an exception to the well density requirements of Rule 104.B and authorize the simultaneous dedication of two horizontal wells within this spacing unit

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
706 Gonzales Road
Santa Fe, New Mexico 87501
(505) 982-4285

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240

DISTRICT II
1501 W. Grand Avenue, Artesia, NM 88210

DISTRICT III
1000 Rio Brazos Rd., Artec, NM 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
1220 South St. Francis
Santa Fe, NM 87505

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code 97489	Pool Name Wildcat, Wolfcamp
Property Code	Property Name SWALE 1525-16 STATE	Well Number 1
OGRID No.	Operator Name PARALLEL PETROLEUM CORPORATION	Elevation 3501'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
L	16	15 S	25 E		1880'	SOUTH	208'	WEST	CHAVES

Bottom Hole Location If Different From Surface

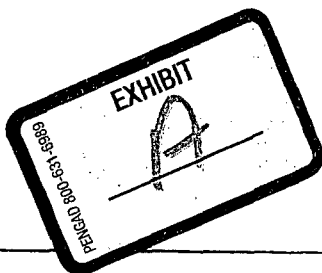
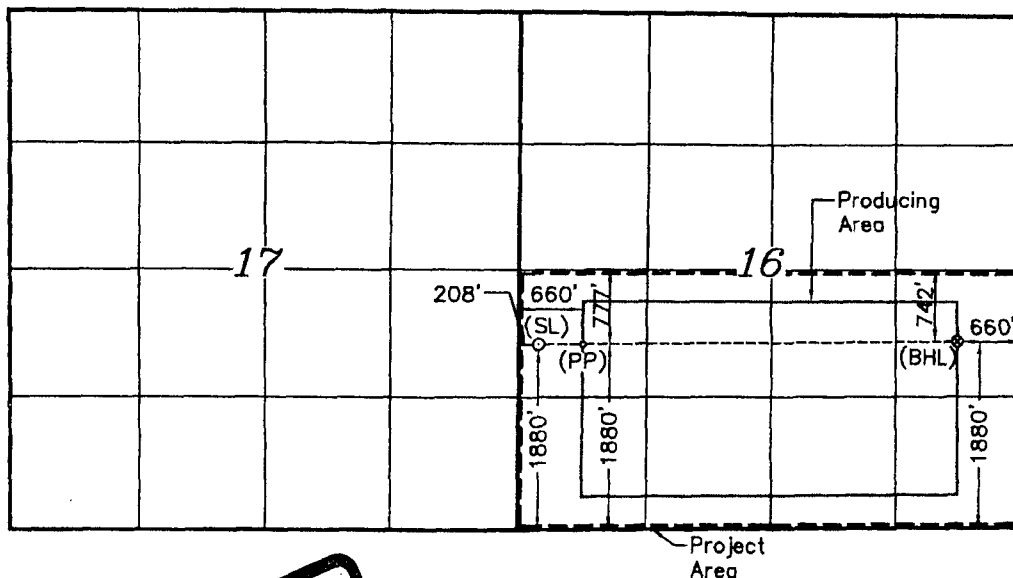
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
I	16	15 S	25 E		1880'	SOUTH	660	EAST	CHAVES

Dedicated Acres 320	Joint or Infill	Consolidation Code	Order No.
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NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

NOTE:

- 1) Plane Coordinates shown hereon are Transverse Mercator Grid and Conform to the "New Mexico Coordinate System", New Mexico East Zone, North American Datum of 1927. Distances shown hereon are mean horizontal surface values.



Coordinate Table	
Description	Plane Coordinate
Swale 1525-16 State #1	X = 462,579.7
Surface Location	Y = 732,271.0
Swale 1525-16 State #1	X = 463,031.5
Penetration Point	Y = 732,276.2
Swale 1525-16 State #1	X = 466,997.4
Bottom Hole Location	Y = 732,322.7

OPERATOR CERTIFICATION

I hereby certify the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or undivided mineral interest in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division.

Signature: *[Signature]* Date: 12-27-06
Printed Name: Agent, Parallel Pet. Corp.

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.

October 12, 2006

Date of Survey
Signature & Seal of Professional Surveyor

[Signature]

W.O. Num. 2006-1002

Certificate No. MACON McDONALD 12185

DISTRICT I
1625 N. French Dr., Hobbs, NM 88240

State of New Mexico
Energy, Minerals & Natural Resources Department

Form C-102
Revised October 12, 2005
Submit to Appropriate District Office
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DISTRICT II
1301 W. Grand Avenue, Artesia, NM 88210

OIL CONSERVATION DIVISION
1220 South St. Frances Dr.
Santa Fe, NM 87505

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code 97489	Pool Name Wildcat; Woffcamp
Property Code	Property Name SWALE 1525-16 STATE	Well Number 2
OGRID No.	Operator Name PARALLEL PETROLEUM CORPORATION	Elevation 3498'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	16	15 S	25 E		760	SOUTH	190	WEST	CHAVES

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
P	16	15 S	25 E		760	SOUTH	660	EAST	CHAVES

Dedicated Acres 320	Joint or Infill	Consolidation Code	Order No.
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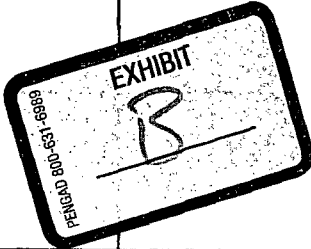
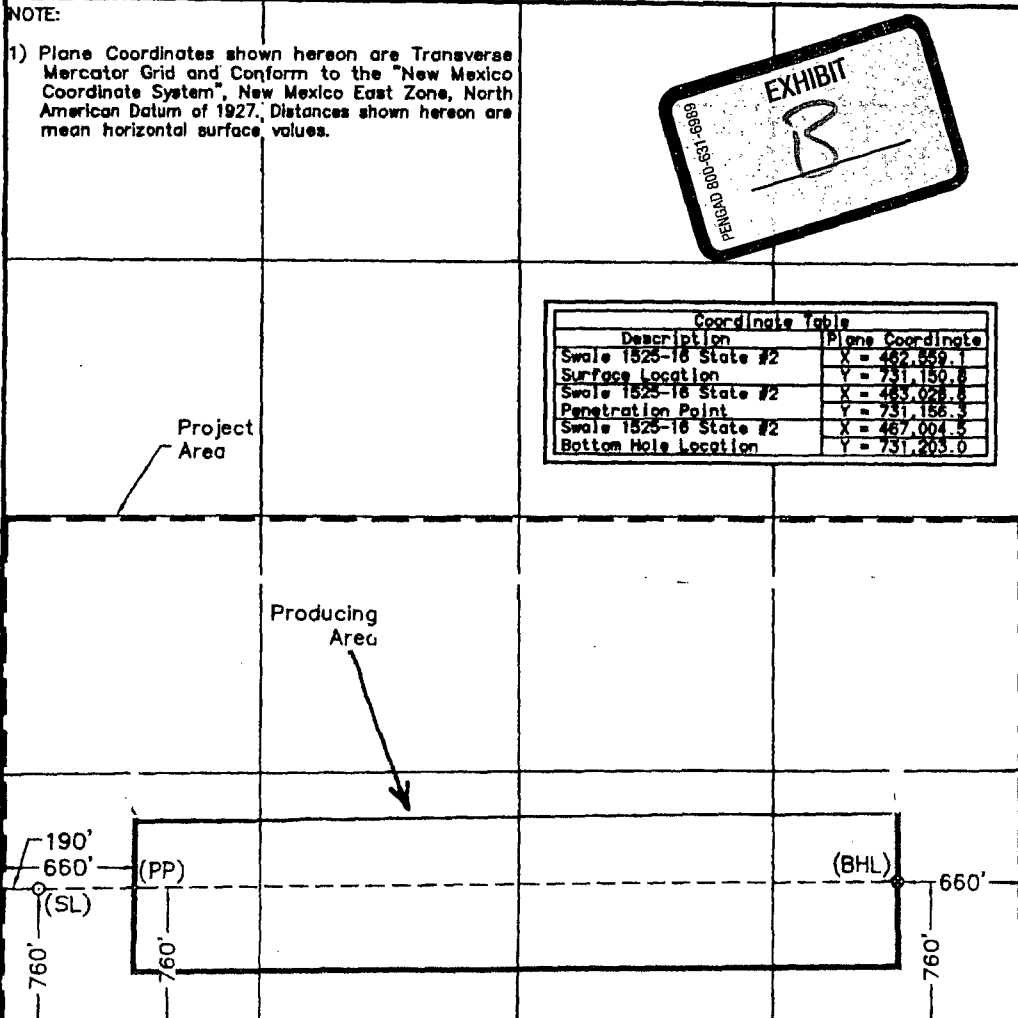
NOTE: 1) Plane Coordinates shown hereon are Transverse Mercator Grid and Conform to the "New Mexico Coordinate System", New Mexico East Zone, North American Datum of 1927. Distances shown hereon are mean horizontal surface values.		OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or undivided mineral interests in the land including the proposed bottom hole location or has a right to drill this well at this location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. Signature: <i>Deane Darham</i> Date: 4-9-07 Printed Name: Deane Darham													
 Project Area Producing Area Coordinates Table: <table><thead><tr><th>Description</th><th>Plane Coordinate</th></tr></thead><tbody><tr><td>Swale 1525-16 State #2</td><td>X = 462,359.1</td></tr><tr><td>Surface Location</td><td>Y = 731,150.6</td></tr><tr><td>Swale 1525-16 State #2</td><td>X = 463,026.6</td></tr><tr><td>Penetration Point</td><td>Y = 731,156.3</td></tr><tr><td>Swale 1525-16 State #2</td><td>X = 467,004.5</td></tr><tr><td>Bottom Hole Location</td><td>Y = 731,203.0</td></tr></tbody></table>	Description	Plane Coordinate	Swale 1525-16 State #2	X = 462,359.1	Surface Location	Y = 731,150.6	Swale 1525-16 State #2	X = 463,026.6	Penetration Point	Y = 731,156.3	Swale 1525-16 State #2	X = 467,004.5	Bottom Hole Location	Y = 731,203.0	SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief. October 12, 2006 Date of Survey Signature & Seal of Professional Surveyor: <i>[Signature]</i> KMT W.O. Num. 2006-1003 Certificate No. MACON, McDONALD 12185
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Swale 1525-16 State #2	X = 467,004.5														
Bottom Hole Location	Y = 731,203.0														

Exhibit "C"

The following is a partial list of Leasehold owners in offsetting sections.

Capstone Oil & Gas Company, L.P.
P.O. Box 10187
Midland, TX 79702

CMW Interests, Inc.
24 Smith Road, Suite 405
Midland, TX 79705

Eiger Exploration, Inc.
P. O. Box 2623
Midland, TX 79702

Note: applicant will supplement this list