

August 21, 2007

HAND DELIVERED

Mark E. Fesmire, P. E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Case 13897
~~13992~~

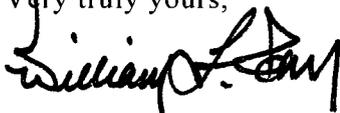
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Re: Application of Great Western Drilling Ltd. and Davoil, Inc. for an order re-opening Case No. 13897 (Application of Cimarex Energy Co. of Colorado for Pool Creation, a Discovery Allowable and Special Pool Rules), creating a new gas pool, rescinding Administrative Order NSL-5578, and shutting in and imposing a production penalty on the Keely 26 Federal Well No. 1, Eddy County, New Mexico.

Dear Mr. Fesmire:

Enclosed is the Application of Great Western Drilling, Ltd. and Davoil, Inc. in the above-referenced case as well as a copy of the legal advertisement. Applicants request that this matter be placed on the docket for the September 20, 2007 Examiner hearings.

Very truly yours,



William F. Carr

Enclosures

cc: Mr. Carter Muire
Great Western Drilling, Ltd.

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

IN THE MATTER OF THE APPLICATION OF GREAT WESTERN DRILLING LTD., AND DAVOIL INC. FOR AN ORDER RE-OPENING CASE NO. 13897 (APPLICATION OF CIMAREX ENERGY CO. OF COLORADO FOR POOL CREATION, A DISCOVERY ALLOWABLE, AND SPECIAL POOL RULES), CREATING A NEW GAS POOL, RESCINDING ADMINISTRATIVE ORDER NSL-5578, AND SHUTTING IN AND IMPOSING A PRODUCTION PENALTY ON THE KEELY 26 FEDERAL WELL NO. 1, EDDY COUNTY, NEW MEXICO.

CASE NO. 13897

APPLICATION

Great Western Drilling Ltd. and, Davoil, Inc. ("Applicants"), through their undersigned attorneys, hereby make application to the New Mexico Oil Conservation Division for an order re-opening Case No. 13897, creating a new gas pool, rescinding Administrative Order No. NSL-5578, and shutting in and penalizing the Keely 26 Federal Well No. 1, and in support of their application, state:

1. Great Western Drilling and Davoil, Inc. are working interest owners in the Grayburg Deep Unit ("the Unit") which is a Federal Unit that was approved by Order No. R-715, dated July 7, 1954. The Unit area includes the N/2 of Section 25, Township 17 South, Range 29 East, NMPM. The Applicants also own working interest in certain lands that were in the Unit Area prior to unit contraction including the S/2 of Section 25 and all of Section 26, Township 17 South, Range 29 East, NMPM. ConocoPhillips is Unit Operator of the Grayburg Deep Unit.

2. Pursuant to an Exploration Agreement with ConocoPhillips, Cimarex Energy Co. of Colorado ("Cimarex") has the right to drill on and earn an interest in portions of the Unit and non-Unit areas. The Exploration Agreement is subject to the terms of the Unit Operating Agreement.

3. The Unit Operating Agreement provides that when parties appear before governmental agencies for the purpose of securing spacing or pooling orders, other parties to the Agreement may appear at such hearings, if they desire.

Keely 26 Federal Well No. 1 (API No. 30-015-35025):

4. In 2006, Cimarex drilled the Keely 26 Federal Well No. 1 (“the Keely Well”) to test the Morrow formation, Sand Tank-Morrow Gas Pool, at a location 1980 feet from the North line and 1550 feet from the East line of Section 26. The E/2 of Section 26 was dedicated to the well. Applicants did not participate in this Morrow well.

5. The Keely Well was unsuccessful in the Morrow formation and in 2007, the well was recompleted as a producing well in the Wolfcamp formation. Although producing a Gas-Oil Ratio of as much as 24,000 to 1, the well was reported to the Division as an oil well which, under the General Rules of the Division, is developed on 40-acre spacing with wells to be located at least 330 feet from the outer boundary of the dedicated spacing unit. Applicants did not participate in the recompletion of the well to the Wolfcamp formation.

6. By drilling the Keely Well on a 40-acre spacing unit comprised of the SW/4 NE/4 of Section 26, Cimarex earned rights in the SW/4 NE/4 of Section 26 pursuant to its Farmout and Exploration Agreement with ConocoPhillips.

7. Although the Keely Well was drilled at a standard location in the Morrow formation, when it was re-completed to the Wolfcamp formation, the well was at an unorthodox well location (220 feet from the outer boundary of the spacing unit) that encroached on the offsetting Wolfcamp spacing unit comprised of the SE/4 NE/4 of Section 26.

8. Cimarex filed an application for administrative approval of the unorthodox location for the Keely Well. In its application, Cimarex advised the Division that since the S/2 of Section is subject to one Federal lease with common royalty, overriding royalty, and working interest, there are no adversely affected offsets, and “notice of this application has not been given to anyone.”

9. Cimarex’s application for an unorthodox well location was approved by Administrative Order NSL-5578, dated March 9, 2007 without notice to “affected persons” in violation of Division Rule 104.F(3).

10. Cimarex only earned interest in the SW/4 NE/4 of Section 26 and therefore its ownership in this spacing unit is different from the ownership in the SE/4 NE/4 of this section.

11. Division Rule 1210 requires that notice of unorthodox well locations shall be provided to certain “affected persons” in the adjoining spacing units. Rule 1210.A.(2) provides that “affected persons” include the Division designated operator of an adjoining spacing unit and

in the absence of an operator, any lessee whose interest is evidenced by a written conveyance document either of record or known to the applicant as of the date he files the application.”. This rule also provides :

“In the event the proposed unorthodox well’s operator is also the operator of an existing, adjoining spacing unit, and the ownership is not common between the adjoining spacing unit and the spacing unit containing the proposed unorthodox well, then “affected persons” includes all working interest owners in that spacing unit.”

12. Cimarex is not the operator of the adjoining spacing unit in the Wolfcamp formation (SE/4 NE/4 of Section 26) and, if it was the operator of this acreage, the ownership is not common between the spacing unit it has dedicated to the Keely Well and this offsetting tract. As lessees and working interest owners in the SE/4 NE/4 of Section 26, Applicants were entitled to notice and an opportunity to object to the application for an unorthodox well location. Since this notice was not provided and since one reason for the Division’s approval of this application was that “the working interest ownership is uniform” between these tracts, the order was improperly obtained and should be set aside.

Grayburg Deep Unit Well No. 14 (API No. 30-015-29766):

13. In 1997, Phillips Petroleum Corporation drilled the Grayburg Deep Unit Well No. 14 at a location 868 feet from the North line and 1062 feet from West line of Section 25, Township 17 South, Range 29 East, NMPM. The well is completed in and producing from the Morrow formation, Sand Tank-Morrow Gas Pool. The log data on the Wolfcamp formation indicates it is productive of hydrocarbons and is behind pipe in this well.

Grayburg Deep Unit Well No. 22 (API No. 30-015-35598):

14. In 2007, after drilling the Keely 26 Federal Well No. 1, Cimarex drilled the Grayburg Deep Unit Well No. 22 at a standard oil well location 1940 feet from the North line and 330 feet from the West line of Section 25, Township 17 South, Range 29 East, NMPM. The Grayburg Deep Unit Well no. 22 is classified as an oil well completed in the Undesignated Northeast Loco Hills-Wolfcamp Pool. A 40-acre spacing unit comprised of the SW/4 NW/4 of Section 25 is dedicated to the well. Applicants did not participate in this well.

15. The Grayburg Deep Unit Well No. 22 is well is a direct southwest offset to the Grayburg Deep Unit Well No. 14. It is located in the same quarter section and is completed in the interval that is behind pipe in the Grayburg Deep Unit Well No. 14.

Application for Pool Creation and Special Pool Rules:

16. On March 13, 2007 Cimarex filed its application in Case 13897 seeking:
 - A. The creation of the Northeast Loco Hills-Wolfcamp Pool encompassing the NE/4 of Section 26;
 - B. Special Rules and Regulations for the new pool including a limiting gas/oil ratio of 6000 cubic feet of gas for each barrel of oil produced, and a discovery allowable for the Keely Well.

This case was heard on April 12, 2007 by Examiner Richard Ezeanyim.

17. No notice of this application was provided to the Applicants nor to other interest owners in the offsetting tracts because, as Applicant advised the Division at the examiner hearing on this application, it is the operator of all offsetting tracts in the Wolfcamp formation.

18. Because they did not receive notice of this application, Applicants were unaware of Cimarex's proposal and therefore were unable to intervene in this case.

19. If Cimarex's application is granted, the result will be a Wolfcamp well, classified as an oil well, at an unorthodox location that is authorized to produce at an accelerated rate because of a discovery allowable and a high Gas-Oil Ratio.

20. Applicants believe that producing this well at this location and pursuant to the rules sought by Cimarex will result in imprudent and potentially wasteful development practices and will impair their correlative rights.

21. Applicants request that Case No. 13897 be re-opened to enable them to appear and present testimony:

- A. In opposition to the designation of this pool as an oil pool and in support of the designation of this pool as a gas pool;
- B. In opposition to the award of an oil discovery allowable to the Keely Well;
- C. In support of the imposition of a penalty on the Keely well, if it is an oil well, due to its unorthodox location; and
- D. In support of its request that the Keely Well be shut in and remain shut in until it has made up its over produced status at the penalized rate established by the Division in this case.

22. Re-opening this case to permit applicants to oppose this application, will be in the best interest of conservation, the prevention of waste and the protection of correlative rights.

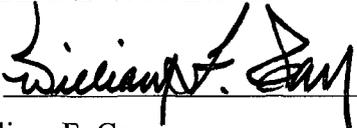
23. Notice of this application will be provided to all affected persons in accordance with the rules of the Division.

WHEREFORE, Great Western Drilling, Ltd. and Davoil, Inc. respectfully requests that the case be re-opened and the application set for hearing before an Examiner of the Oil Conservation Division on September 20 2007 and, after notice and hearing as required by law, that the Division enter its order:

- A. Reopening Case No. 13897
- B. Creating a new gas pool in the Wolfcamp formation based on information obtained from the Keely 26 Federal Well No. 1 to be operated in accordance with the General Rules and Regulations of the Division;
- C. Requiring the wells in this new gas pool, including the Keely Well and the Grayburg Deep Unit Well No. 22, be shut in until they have dedicated to them standard gas spacing units;
- D. Rescinding Administrative Order NSL- 5578 and, if this reservoir is declared to be an oil reservoir, imposing a penalty on the production from the Keely Well to offset the advantage gained by Cimarex on offset operators as a result of this unorthodox location;
- E. Denying Cimarex' request for a discovery oil allowable;
- F. Ordering the Keely Well be shut in and remain shut in until it has made up its overproduced status at a penalized rate established by the Division in this case; and
- G. Granting such further relief as the Division deems appropriate.

Respectfully submitted,

HOLLAND & HART LLP

By: 

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Santa Fe, New Mexico 87504
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ATTORNEYS FOR GREAT WESTERN
DRILLING LTD., AND DAVOIL, INC.

CASE 13897 **Application of Great Western Drilling Ltd. and Davoil, Inc. for an order re-opening Case No. 13897 (Application of Cimarex Energy Co. of Colorado for Pool Creation, a Discovery Allowable and Special Pool Rules), creating a new gas pool, rescinding Administrative Order NSL-5578, and shutting in and imposing a production penalty on the Keely 26 Federal Well No. 1, Eddy County, New Mexico.** Applicant in the above-styled cause seeks to re-open Case No. 13897 (Application of Cimarex Energy Co. of Colorado for Pool Creation, A Discovery Allowable, and Special Pool Rules, Eddy County, New Mexico) to allow Great Western Drilling and DAVOIL, Inc. to appear and present testimony in opposition to the application to classify this pool as an oil pool and to adopt special pool rules for this pool. Applicants also seek the rescission of Administrative Order NSL-5578 that approved an unorthodox location for the Keely 26 Fed. Well No. 1, located 1980 feet from the North line and 1550 feet from the East line of Section 26, the imposition of a penalty on production from this well if it is determined to be an oil well, and denial of a discovery allowable. The proposed new pool in the Wolfcamp formation is comprised of the NE/4 of Section 26, Township 17 South, Range 29 East, NMPM and is located 5 miles west-northwest of Loco Hills, New Mexico.