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2010 AUG 26 P 4:45

August 26, 2010

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

Hand Delivered

**Re: NMOCD Case No. 14548 : Application of Blue Dolphin Production LLC for
an Unorthodox Well Location and Non-Standard Oil Spacing and Proration
Unit, Rio Arriba County, New Mexico**

Dear Ms. Davidson:

On behalf of Blue Dolphin Production LLC, enclosed is an Application in the
above-referenced case. Please set this matter for hearing on the September 30,
2010 examiner docket. Also enclosed is a proposed advertisement for the case.

Thank you.

Very truly yours,

J. Scott Hall

JSH:kw

Enclosures

cc: Blue Dolphin Production LLC
00213812

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

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2010 AUG 26 P 4: 45

**IN THE MATTER OF THE APPLICATION OF
BLUE DOLPHIN PRODUCTION LLC FOR AN
UNORTHODOX WELL LOCATION AND NON-
STANDARD OIL SPACING AND PRORATION
UNIT, RIO ARriba COUNTY, NEW MEXICO.**

CASE NO. 14548

APPLICATION

BLUE DOLPHIN PRODUCTION, LLC, ("Blue Dolphin") by and through its attorneys, Montgomery and Andrews, P.A. (J. Scott Hall, Esq.), hereby makes application pursuant to *inter alia* Rule 19.15.15.13 and the applicable statewide rules governing oil well locations (Rule 19.15.15.19.A), and 19.15.15.11 NMAC of the Division's Rules and Regulations for an order approving the unorthodox well location for the Theis Greenhorn Test Well No. 1 and the formation of a non-standard oil well spacing and proration unit comprised of $21.0 \pm$ acres located in the approximate equivalent of the E/2 SW/4 NE/4 of projected Section 27, T30N, R1E in Rio Arriba County, New Mexico. In support, Applicant states:

1. Applicant is the operator of the following well:

Theis Greenhorn Test Well No. 1
1643' FNL and 1575' FEL (G)
Projected Section 27, T30N, R1E
Rio Arriba County, New Mexico

2. Applicant proposes to drill this straight-hole well to a depth sufficient to test the Greenhorn member of the undesignated Mancos Shale formation (WC30N1E27). The well is prospective for oil. The nearest production is in the Boulder field approximately 11 miles to the west and the well is defined as a wildcat under the Division's rules. The statewide rules for wildcat oil wells currently provide that wells shall be drilled no closer than 330' to the outer boundary of a standard 40-acre spacing unit.

3. Blue Dolphin seeks an exception from the applicable well location rules for the Theis Greenhorn Test Well No. 1 for the following reason: (1) The well is located in an unsurveyed area within the Tierra Amarilla land grant. The section/township/range description of the location is based on unofficial, projected township and section lines from an adjoining survey and therefore, it is not possible to state the proximity to actual section lines or quarter-quarter subdivisions boundaries with certainty. However, the location descriptions by latitude/longitude and by reference to the New Mexico State Plane Coordinate System referenced on the C-102 for the well are accurate. (2) Although this well is not subject to the Design and Operational Standards for Oil and Gas Development of Rio Arriba County Ordinance No. 2009-01, it has been sited at the proposed location in consultation with Rio Arriba County planning and zoning department staff, as well as with representatives of the BIA, BLM and Jicarilla Apache Nation. In locating the well, terrain limitations, access roads, proximity to water features, and compatibility with existing land uses were taken into consideration.

4. The location for this well is not located closer than 660' to any existing well or a well that is known to be planned. Blue Dolphin Production, LLC or its affiliates owns or controls the majority of the leasehold working interest in each of the adjoining spacing units toward which the location encroaches and Blue Dolphin would be the operator of each of those units. Further, the mineral interest ownership underlying the proposed unit within projected Section 21 and each of the spacing units toward which the well encroaches is identical.

5. Applicant also seeks approval of a $21.0 \pm$ acre non-standard spacing and proration unit to be dedicated to the referenced well and comprised of the approximate E/2 SW/4 NE/4 of projected Section 27.

6. The statewide oil well location and acreage dedication rules applicable to wildcat wells provide that oil wells shall be located on a spacing unit “...*consisting of approximately 40 contiguous surface acres, substantially in the form of a square that is a legal subdivision of the United States public land survey and is a governmental quarter-quarter section or lot..*”. See Rule 19.15.15.9.A. Rule 19.15.15.11 B(1) authorizes approval of non-standard units when necessitated by “*a variation in the legal subdivision of the United States public land surveys...*” In this circumstance, the variation results from the application of the *projected* survey and the proximity to Jicarilla Apache Nation tribal lands on the western boundary of the unit.

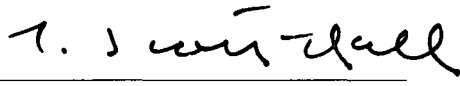
7. Within the 40 acres comprising the equivalent of the SW/4 NE/4 of projected Section 27, the approximate W/2 SW/4 NE/4 are reservation system lands administered by the BIA and Jicarilla Apache Nation. These lands have not been consolidated with the remainder of the lands comprising the approximate E/2 SW/4 NE/4.

8. Designation of the non-standard unit will permit future development patterns in the surrounding projected units to remain consistent with the projected section subdivision boundaries. Approval of the non-standard unit will afford the Applicant the opportunity to produce its just and equitable share of hydrocarbons underlying the spacing unit, will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on September 30, 2010, and that after notice and hearing as required by law, the Division enter its Order approving the unorthodox well location and the designation of the non-standard spacing unit

Respectfully submitted,

MONTGOMERY & ANDREWS, P. A.

By: 

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Attorneys for Blue Dolphin Production, LLC

00213771

Case 14548: Application of Blue Dolphin Production, LLC for Unorthodox Well Location and Non-Standard Spacing Unit, Rio Arriba County, New Mexico. Applicant seeks an order approving the formation of a non-standard oil well spacing and proration unit comprised of 21.0 \pm acres located in the E/2 SW/4 NE/4 of projected Section 27, T30N, R1E in Rio Arriba County, New Mexico. The proposed non-standard unit will be dedicated to the following well to be drilled at an unorthodox location to the Greenhorn member of the undesignated Mancos Shale formation, (WC30N1E27):

Theis Greenhorn Test Well No. 1
1643' FNL and 1575' FEL (G)
Projected Section 27, T30N, R1E
Rio Arriba County, New Mexico

The well and lands are located approximately one-half mile south of Horse Lake, New Mexico.

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