

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

February 22, 2000

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

HAND DELIVERED

12356

Ms. Lori Wrotenbery, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

OIL CONSERVATION DIV.
00 FEB 22 PM 1:59

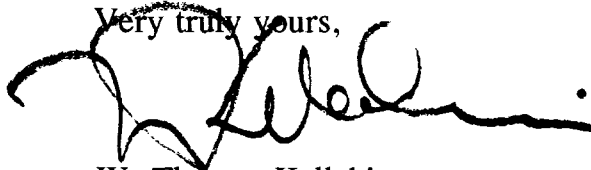
Re: San Juan 32-7 Unit
Application of Phillips Petroleum Company
for approval of six non-standard gas proration and
spacing units and an unorthodox gas well location,
in the South Los Pinos-Pictured Cliffs Gas Pool,
San Juan County, New Mexico

Dear Ms. Wrotenbery:

On behalf of Phillips Petroleum Company, please find enclosed our
referenced application which we request be set for hearing on the next
available Examiner's docket now scheduled for March 16, 2000.

Also enclosed is our proposed advertisement of this case for the
NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Phillips Petroleum Company
Attn: Mr. Scott Prather

PROPOSED ADVERTISEMENT

Case 12356. Application of Phillips Petroleum Company for approval of six non-standard gas spacing and proration units and an unorthodox gas well location, San Juan County, New Mexico. Applicant seeks the approval of six non-standard gas spacing and proration units within the 32-7 Unit to be dedicated to any production from the Pictured Cliffs formation of the South Pinos-Pictured Cliffs Gas Pool, said units to be configured from all or portions of Irregular Sections 4, 5, 6, and 7, T31N, R7W, NMPM, San Juan County, New Mexico. These proposed units are made necessary as a result of variations in the legal subdivision of the United States Public Land Survey and are configured to be compatible with the non-standard gas spacing and proration units which have been approved for the Basin Dakota Gas Pool, the Blanco-Mesaverde Gas Pool and the Basin-Fruitland Coal-Gas Pool. In addition, the applicant seeks approval for the recompletion of the San Juan 32-7 Unit Well No. 18 from the Mesaverde formation to a Pictured Cliffs formation gas well at an unorthodox location 400 feet from the east line and 2225 feet from the south line of Irregular Section 5 to be dedicated to a standard 160-acre spacing unit consisting of the SE/4 of this section. These units are located approximately 0.75 miles south-southeast of the intersection of New Mexico State Highway 511 and the borders of the States of New Mexico and Colorado. **IN THE ABSENCE OF OBJECTION THIS MATTER WILL BE TAKEN UNDER ADVISEMENT**

OIL CONSERVATION DIV.
JUL 22 PM 2:01

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE 12356

APPLICATION OF PHILLIPS PETROLEUM COMPANY
FOR APPROVAL OF SIX NON-STANDARD GAS
PRORATION AND SPACING UNITS AND AN UNORTHODOX
GAS WELL LOCATION IN THE SOUTH PINOS-PICTURED
CLIFFS GAS POOL, SAN JUAN COUNTY, NEW MEXICO.

OIL CONSERVATION DIV.
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APPLICATION

Comes now PHILLIPS PETROLEUM COMPANY, by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation Division for approval of six non-standard gas spacing and proration units within the 32-7 Unit to be dedicated to any production from the Pictured Cliffs formation of the South Pinos-Pictured Cliffs Gas Pool, said units to be configured from all or portions of Irregular Sections 4, 5, 6, and 7, T31N, R7W, NMPM, San Juan County, New Mexico. These proposed units are made necessary as a result of variations in the legal subdivision of the United States Public Land Survey and are configured to be compatible with the non-standard gas spacing and proration units which have been approved for the Basin Dakota Gas Pool, the Blanco-Mesaverde Gas Pool and the Basin-Fruitland Coal-Gas Pool. In addition, the applicant seeks approval for the recompletion of the San Juan 32-7 Unit Well No. 18 from the Mesaverde formation to a Pictured Cliffs formation gas well at an unorthodox location 400 feet from the east line and 2225 feet from the south line of Irregular Section 5 to be dedicated to a standard 160-acre spacing unit consisting of the SE/4 of this section. In support of its application, Phillips Petroleum Company ("Phillips"), states:

(1) Phillips is the operator of the 32-7 Unit which contains certain irregular sections. **See Exhibit 1 attached.**

(2) As a result of variations in the legal subdivision of the United States Public Land Survey, there are certain sections contained within the unit which are irregular in shape and size. **See Exhibit 1 attached.**

(3) Phillips proposes the following non-standard gas proration and spacing units for Pictured Cliffs formation gas production be formed from these irregular sections:

- (a) a 163.15-acre unit consisting of the following originally surveyed description:
 - Township 31 North, Range 7 West
 - Section 4: Lots 6, 7, 8 & NW/4SE/4
 - Section 5: Lot 5
- (b) a 161.66-acre unit consisting of the following originally surveyed description:
 - Township 31 North, Range 7 West
 - Section 5: Lots 6, 7, and 8, & E/2SW/4
- (c) a 157.16-acre unit consisting of the following originally surveyed description:
 - Township 31 North, Range 7 West
 - Section 5: Lot 9 and that portion of Tract 53 lying within this section
 - Section 6: Lot 13, NW/4SE/4 and that portion of Tract 53 lying within this section
- (d) a 162.00-acre unit consisting of the following originally surveyed description:
 - Township 31 North, Range 7 West
 - Section 6: Lots 8, 9, 10, 11 & NE/4SW/4
- (e) a 164.39-acre unit consisting of the following originally surveyed description:
 - Township 31 North, Range 7 West
 - Section 6: Lots 12, 14, 15, & SW/4SE/4
 - Section 7: Lot 5, & NW/4NE/4
- (f) a 160.00-acre unit consisting of the following originally surveyed description:
 - Township 31 North, Range 7 West
 - Section 5: SW/4SW/4
 - Section 6: SE/4SE/4
 - Section 7: E/2NE/4

(4) These six non-standard gas proration and spacing units (using the original surveys), are being formed to be compatible with the boundaries of previously approved non-standard proration and spacing units approved by the Division for Basin Dakota Gas Pool, Blanco-Mesaverde Gas Pool and/or Basin Fruitland Coal-Gas Pool production. See Orders R-1066, R-2046, R-5364, R-9305. In addition, these proposed Pictured Cliffs non-standard proration and spacing units are consistent with other Pictured Cliffs non-standard proration and spacing units previously approved by the Division. See Order R-5364.

(5) In addition, the applicant seeks approval for the recompletion of the San Juan 32-7 Unit Well No. 18 from the Mesaverde formation to a Pictured Cliffs formation gas well at an unorthodox location 400 feet from the east line and 2225 feet from the south line of Irregular Section 5 to be dedicated to a standard 160-acre spacing unit consisting of the SE/4 of this section.

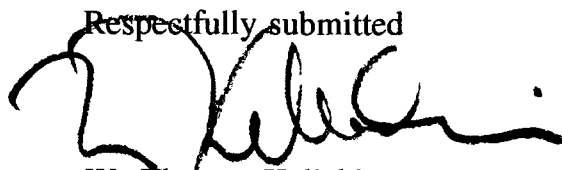
(6) There is a substantial savings realized by the working interest owners in the unit to be able to recomplete this well in the Pictured Cliffs formation rather than have to pay for a new wellbore drilled at the closest standard location. The ownership is common between the spacing unit with the encroaching well and those spacing units towards which this well encroaches. Thus the ownership in the subject spacing unit will be the same and no correlative rights are impaired.

(7) Approval of this application will afford the applicant the opportunity to produce its just and equitable share of the gas in the South Pinos-Pictured Cliffs Gas Pool, will promote the orderly development of this area, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect corrective rights.

(8) Notice of this application has been sent to all interest owners entitled to receive production from these units and the offset operators.

WHEREFORE Applicant requests that this matter be set for hearing on March 16, 2000 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

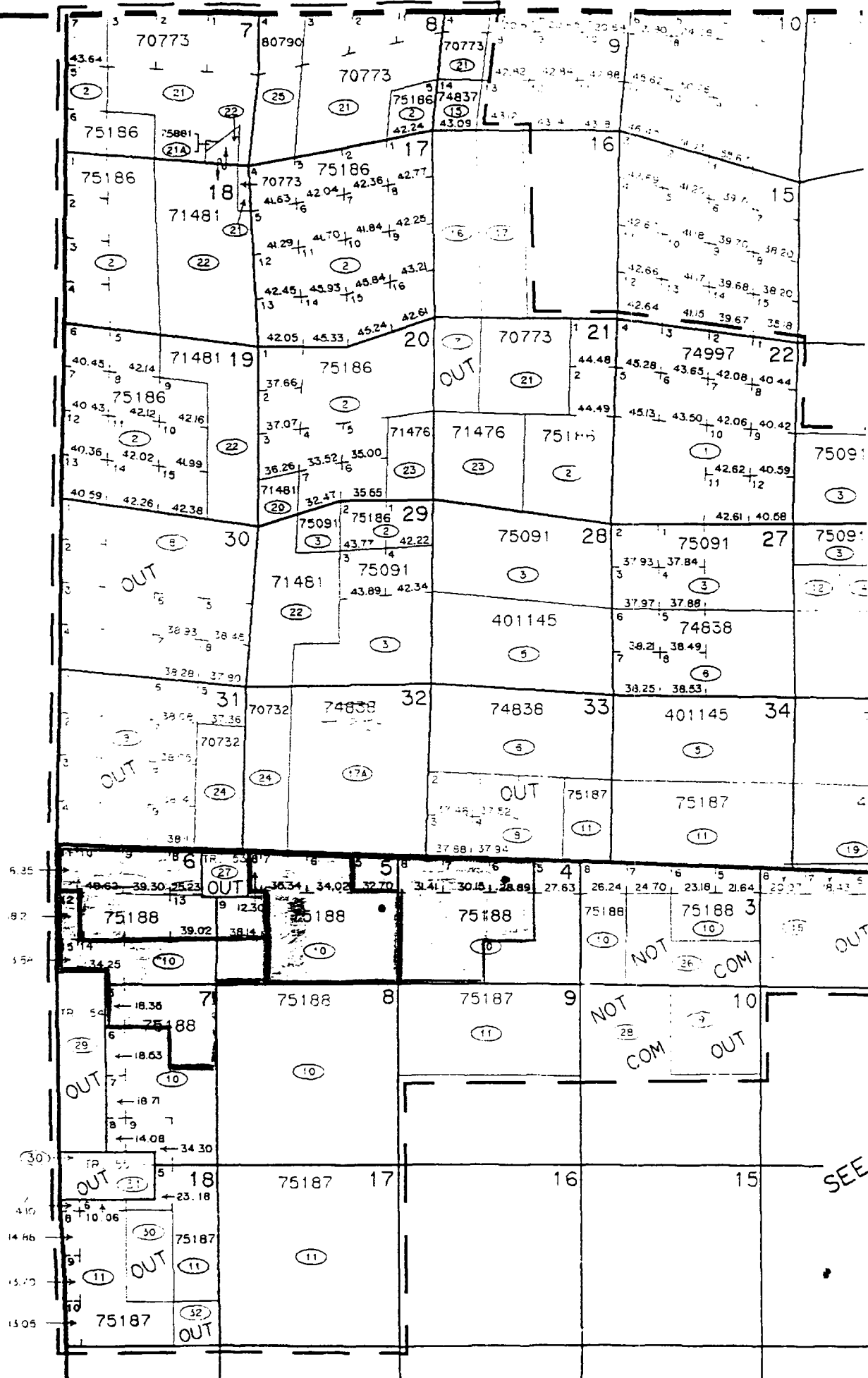
Respectfully submitted

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. Thomas Kellahin
KELLAHIN and KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285
Attorneys for Applicant

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EXHIBIT

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