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February 10, 2000

Mr. Michael Stogner New Mexico Oil Conservation Commission 2040 Pacheo Santa Fe, New Mexico 87504

Re: Application for Unorthodox Gas Well Location Eaves "B" Well No. 20 Scarborough Yates-Seven Rivers Field (Created by Order No. R-2999 12/01/65) 429' FEL, 1414' FSL Section 30, T26S, R37E Lea County, New Mexico

Dear Mr. Stogner,

Southwest Royalties, Inc. respectfully requests your approval of this administrative application for an Unorthodox Gas Well Location.

Southwest Royalties, Inc. is planning to complete the subject temporarily abandoned Seven Rivers oil well as a Yates gas well in the Scarborough Yates-Seven Rivers Pool. The Eaves "B" lease covers 280 acres in Section 30 (240 acres are contiguous). 200 acres of the 240 contiguous acres are in the Scarborough Field. Eaves "B" No. 8 is the only active well on the lease at this time. No. 8 is a Seven Rivers oil well, which is producing with a high volume submersible pump. Well No. 20 was chosen for recompletion as it is a modern completion having been drilled and completed in the deeper Seven Rivers formation in October 1993. If the Yates completion in No. 20 is successful No. 8 will be temporarily abandoned.

The offset operator plat shows that Conoco, Gruy Petroleum Management, Dallas McCasland, as well as Southwest Royalties, Inc. have leases that could be affected by the unorthodox location.

This work is necessary to prevent waste of Yates gas reserves, and to protect Southwest Royalties, Inc. correlative rights, i.e. Yates gas has been produced from wells in the offset section 29. A copy of this letter and attachments has been furnished by Certified Mail to the offset operators as notice of this application.

If you have any questions or require additional information, please contact the undersigned at (915) 686-9927 or by e-mail at Marty\_B@SWRINC.COM.

Sincerely.

C. M. "Marty" Bloodworth, P. E.

Area Supervisor

xc: CMB file Well file Operators

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12426 Exhibit No. 1

Submitted by: Southwest Royalties, Inc.

Hearing Date: July 13, 2000

## 01.5m ct : FO Box 1980, Hozos, NM 38241-1960

# State of New Mexico Energy, Minerals & Natural Resources Department

Form C-101 Revised October 18, 1994 Instructions on back Submit to Appropriate District Office

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## State of New Mexico

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Revised October 18, 1994
Instructions on back
Submit to Appropriate District Office
State Lease - 4 Copies
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AMENDED REPORT

#### WELL LOCATION AND ACREAGE DEDICATION PLAT

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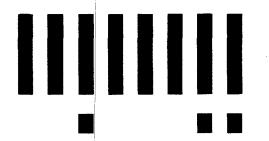
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Job separation sheet

OH, CONSERVATION DIVISION 2040 South Pacheco Street Santa Fc, New Mexico 87505 (505) 827-7131

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May 1, 2000

MAY - 8 2000 NON-OP

Southwest Royalties, Inc. P. O. Box 11390 Midland, Texas 79702-8390

Attention: C. M. Bloodworth

Re:

Administrative application for the creation of a non-standard 280-acre gas spacing and proration unit within the Scarborough-Yates- Seven Rivers Pool to comprise the \$\S/2\ NE/4\ NE/4\ SE/4\, and \$\S/2\ SE/4\ of Section 30\. Township 26\ South, Range 37\ East, NMPM, Lea County, New Mexico.

Dear Mr. Bloodworth:

Reference is made to your application dated February 10, 2000 for the formation of the above-described non-standard 280-acre gas spacing and proration unit for gas production from the unprorated Scarborough-Yates-Seven Rivers Pool. This unit to be dedicated to Southwest Royalties, Inc.'s existing Eaves "B" Well No. 20 (API No. 30-025-32274) located 1414 feet from the South line and 429 feet from the East line (Unit 1) of Section 30.

My review of this application indicates that the Scarborough-Yates-Seven Rivers Pool is subject to: (i) the "Special Rules and Regulations for the Scarborough Yates-Seven Rivers Pool," as established by Division Order No. R-2999, issued in Case No. 3316 and dated November 23, 1965, which requires that oil wells be developed on 40-acre spacing and production be subject to an assigned allowable and that gas wells be spaced on 640-acre units consisting of a governmental section, with wells to be located no closer than 1980 feet to the outer boundary of the section and no closer than 330 feet to any governmental quarter-quarter section line; and, (ii) since Order No. R-2999 did not assess production limitations of any kind on gas wells within this pool, then Division Rule 104.D (3), which restricts the number of producing wells within a single gas spacing unit within "non-prorated" pools to only one.

Due to: (i) the close proximity of this pool to the Jalmat Gas Pool; (ii) the variance between of the rules governing these similar gas pools; (iii) the developing controversy between certain operators on rule interpretations and development within the Jalmat Gas Pool; and (iv) attempts by many operators to reorient acreage and seek smaller than normal non-standard gas spacing and proration units in other non-prorated gas pools only for the purpose of avoiding this one well per standard unit limit, the Division's review of this request and its commitment to protecting correlative rights and preventing waste will best be served through the hearing process.

BEFORE THE OIL CONSERVATION DIVISION
Santa Fe, New Mexico
Case No. 12426 Exhibit No. 2

Submatted by:
Southwest Royalties, Inc.
Hearing Date: July 13, 2000

This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for June 1, 2000 and will be advertised in the following manner:

Application of Southwest Royalties, Inc. for a non-standard gas spacing and proration unit and an unorthodox gas well location, Lea County, New Mexico. Applicant seek exceptions to Rules 3 and 6 of the "Special Rules and Regulations for the Scarborough Yates-Seven Rivers Pool", as promulgated by Division Order No. R 2999, in order to: (i) establish a non-standard 280-acre gas spacing and proration unit comprising the S/2 NE/4, NE/4 SE/4, and S/2 SE/4) of Section 30, Township 26 South, Range 37 East (which is located approximately seven miles south of Jal. New Mexico) within the Scarborough Yates-Seven Rivers Pool; and (ii) to dedicate thereon its existing Eaves "B" Well No. 20 (API No. 30-025-32274) located at an unorthodox gas well location 14/4 feet from the South line and 429 feet from the East line (Unit 1) of Section 30.

Thank you for your cooperation and understanding, should you have any questions concerning this matter, your legal counsel should be able to assist you.

Sincerely,

July 13

Michael E. Stogner

Chief Hearing Officer/Engineer

ec: New Mexico Oil Conservation Division - Hobbs

U. S. Bureau of Land Management - Carlshad

U. S. Bureau of Land Management - Roswell

Kathy Valdes, NMOCD - Santa Fe

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