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JASON KELLAHIN (RETIRED 1991)

'92 JUL 26 AM 4 08

July 28, 1992

Mr. William J. LeMay
Oil Conservation Division
310 Old Santa Fe Trail, Room 218
State Land Office Building
Santa Fe, New Mexico 87501

HAND DELIVERED

RE: Application of Southland Royalty
Company for Approval of an
Unorthodox Well Location,
and Downhole Commingling,
San Juan County, New Mexico

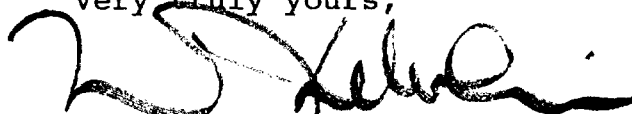
10531

Dear Mr. Lemay:

On behalf of Southland Royalty Company, please find enclosed our application for a hearing for the Hanks 501 Well. We request that this case be set for hearing on August 20, 1992 Examiner's Docket.

By copy of this letter, including the application, to all parties listed on Exhibit "A" to the application, we are notifying them by certified mail, return receipt requested, that they have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or in opposition to the application.

Very truly yours,



W. Thomas Kellahin

WTK/jcl

Enclosure

xc: with Enclosure

Alan Alexander - Farmington, NM

By Certified Mail - Return Receipt Requested

To all parties listed on Exhibit "A"
of the Application

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

IN THE MATTER OF THE APPLICATION
OF SOUTHLAND ROYALTY COMPANY FOR
APPROVAL OF AN UNORTHODOX
GAS WELL LOCATION AND DOWNHOLE
COMMINGLING, SAN JUAN COUNTY,
NEW MEXICO

A P P L I C A T I O N

10531

Comes now SOUTHLAND ROYALTY COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey, and applies to the New Mexico Oil Conservation Division for approval to drill its proposed Southland Royalty Company's Hanks 501 Well as follows:

(1) at an unorthodox well location 1800 feet FNL and 790 feet FWL of Section 12, T27N, R10W, NMPM, San Juan County, New Mexico;

(2) to downhole commingle production from the Fulcher-Kutz Pictured Cliffs Gas Pool and the Basin Fruitland Coal Gas Pool, said well being located in the SW/4NW/4 (Unit E) of said Section 12;

(3) with the dedication of a standard spacing unit containing 320 acres and consisting of the W/2 of said Section 12 for production from the Basin Fruitland Coal Gas Pool; and

(4) the dedication of a standard proration and spacing unit containing 160 acres and consisting of the NW/4 of said Section 12 for production from the Fulcher-

Kutz Pictured Cliff Pool.

AND IN SUPPORT THEREOF STATES:

(1) Southland Royalty Company ("Southland") is the proposed operator of the subject well and is a working interest owner in both proposed spacing units in the Basin Fruitland Coal Gas Pool and the Fulcher-Kutz Pictured Cliff Pool.

(2) The proposed unorthodox location is an acceptable location within the section from which to test for production in both the Fulcher Kutz-Pictured Cliffs Pool and the Basin-Fruitland Coal Gas Pool.

(3) The proposed location is unorthodox for the Basin-Fruitland Coal Gas Pool because it is located in the NW/4 of the section rather than the NE/2 or the SW/4 of the section.

(4) Both the Pictured Cliffs and Fruitland formations in this area of the basin should be marginally productive.

(5) The proposed location is the optimum location for further development of the Pictured Cliffs formation which cannot be efficiently developed without downhole commingling with the Fruitland Coal gas.

(6) The proposed downhole commingling is necessary in order for the applicant to economically recover Basin-Fruitland Coal Gas Pool reserves and remaining Fulcher

Kutz-Pictured Cliffs Gas Pool reserves underlying each respective proration unit.

(7) In accordance with Division Rule 303-C-1.(b), Southland states and will demonstrate at hearing:

(a) that the commingling is necessary to permit the Pictured Cliffs Pool to be produced because it is not otherwise economic to attempt to drill a separate well for each of the two pools involved;

(b) that there will be no crossflow between the two commingled pools;

(c) that neither commingled zone exposes the other commingled zone to damage by produced liquids;

(d) that the fluids, if any, from each zone are expected to be compatible with the other zone;

(e) that ownership is common between the two pools and no other correlative rights violations will occur;

(f) that the bottomhole pressure of the lower pressure zone is not anticipated to be less than 50 percent of the bottom hole pressure of the higher pressure zone when adjusted to a common datum;

(g) that the value of the commingled production is not less than the sum of the values of the individual production.

(7) Southland seeks the approval of an allocation formula for the equitable distribution of production between the two pools based upon individual pool production tests to be conducted on the well during its drilling and completion.

(8) The ownership between the two pools is identical and is subject to the same federal oil & gas lease.

(9) Southland requests that this matter be docketed for hearing on the Division Examiner docket now scheduled for August 20, 1992.

(10) A copy of this application has been sent to all offsetting operators and interested parties who might be affected by this application as identified and set forth on Exhibit A.

WHEREFORE, Southland requests that this matter be set for hearing on August 20, 1992 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.

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