

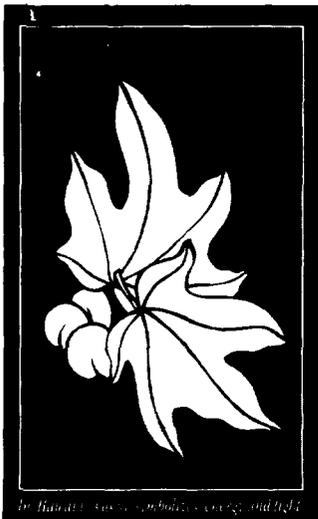
124040408

NSL

# KUKUI Operating Company

01 AUG 27 PM 2:03

August 23, 2001



*8.5 miles east by South of Louisa*

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Mr. Michael Stogner  
Engineering Bureau  
Oil Conservation Division  
New Mexico Energy, Minerals and  
Natural Resources Department  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

*Case 12736*

Re: Application for Unorthodox Well Location  
Rule 104 Exception  
Goodnight "35" Federal No. 3  
660' FWL and 440' FSL of Section 35-T23S-R29E  
Eddy County, New Mexico

*(30-015-31865)*

Dear Mr. Stogner:

Pursuant to our conversation of August 8, 2001, KUKUI Operating Company (KUKUI) respectfully requests that the Oil Conservation Division of the Energy, Minerals and Natural Resources Department of the State of New Mexico grant an unorthodox well location for the Wolfcamp, Strawn, Atoka and Morrow zones for the Goodnight "35" Federal No. 3 for the reasons discussed below. The proposed location of this wellbore is 660' FWL and 440' FSL of Section 35-T23S-R29E, Eddy County, New Mexico.

The well is designed to test the Delaware Group (Bell Canyon, Cherry Canyon, Brushy Canyon) and the Bone Spring Sands as well as the deeper Wolfcamp, Strawn, Atoka and Morrow zones. KUKUI currently operates the Goodnight "35" Federal No. 1 located in the SE/4 SW/4 Section 35-T23S-R29E. The Goodnight "35" Federal No. 1 has tested mostly water with shows of hydrocarbons from the Bone Spring and Delaware Brushy Canyon. As shown on the attached 1<sup>st</sup> Bone Spring Structure map, in order to move updip for a chance at a commercial well in the Bone Spring/Delaware, KUKUI

Mr. Michael Stogner  
August 23, 2001  
Page Two

must move as far as possible in a westerly direction from the Goodnight "35" Federal No. 1.

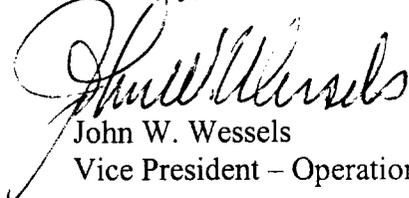
An orthodox location for the deeper zones (Wolfcamp, Strawn, Atoka, Morrow) would be 660' FSL and 660' FWL of Section 35. Geologically, this location would be acceptable also for the Bone Spring/Delaware zones. However, due to the presence of a potash mining area, the Bureau of Land Management (BLM) will not permit a well at an orthodox location. The farthest point north of the south section line the BLM will permit a well is 440' while still staying 660' FWL. The boundary of known potash reserves and within which the BLM will not allow drilling is shown on the attached Form C-102.

The attached Morrow Lime Structure Map shows the outline of the northern portion of existing Cedar Canyon-Morrow pool. The closest Morrow production is the Devon Energy HB2 State No. 1 located in the SW/4 NW/4 Section 2-T24S-R29E of a standup 320 acre unit. The Vision Energy HB3 Federal No. 1 located in the NW/4 SE/4 Section 3-T24S-R29E penetrated the Morrow but is currently producing from the Bone Spring.

A directional well could be drilled from the unorthodox location such that the bottom hole location at the Morrow formation would be 660' FSL and 660' FWL. However, the additional trouble free costs for a directional well would be approximately \$150,000. KUKUI does not believe these additional costs along with the increased mechanical risks can be justified.

A copy of the approved Application for Permit to Drill issued by the BLM is attached to this application. Please note the well was originally permitted to be drilled to 8500'. This permit was amended by sundry notice to directionally drill the well to 14,300'. The BLM has indicated that no additional forms are necessary to drill the well vertically instead of directionally. Copies of notices to affected persons are also attached. These notices were sent by certified mail on August 23, 2001. Your attention to this matter is greatly appreciated.

Sincerely,

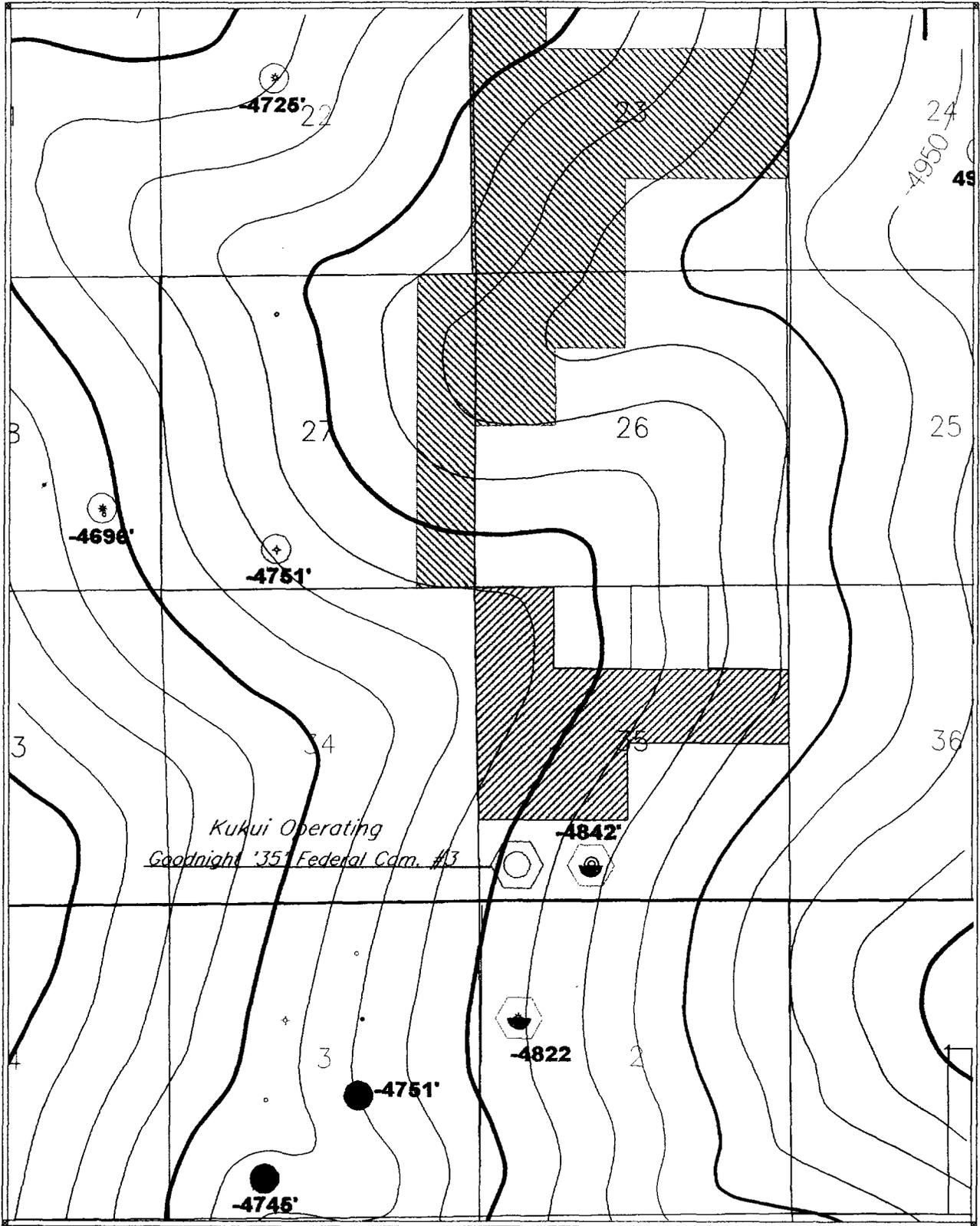


John W. Wessels  
Vice President - Operations

JWW:le

Enclosures

Cc: Larry Strider (w/encls.)  
Well File (w/encls.)



LEGEND

- KUKUI LEASEHOLD
- 1st BONE SPRING SAND PRODUCER
- ⊕ 1st BONE SPRING SAND SHOW
- ▨ KUKUI LEASEHOLD-POTASH NSO

KUKUI OPERATING

SOUTHEAST NEW MEXICO PLAY AREA  
 GOODNIGHT PROSPECT, EDDY CO.  
 1st BONE SPRING SAND STRUCTURE MAP

	0 to 25'	8/01
	1:3000	SPRINGS OFF

DISTRICT I  
P.O. Box 1888, Santa Fe, NM 87501-1888

DISTRICT II  
P.O. Box 1888, Santa Fe, NM 87501-1888

DISTRICT III  
1000 No. Main St., Santa Fe, NM 87501

DISTRICT IV  
P.O. Box 1888, Santa Fe, NM 87501-1888

State of New Mexico  
Energy, Minerals and Natural Resources Department

**OIL CONSERVATION DIVISION**  
P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

Form C-102  
Revised February 10, 1984  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

AMENDED REPORT

API Number	Pool Code	Pool Name
	74480	CEDER CANYON - MORROW
Property Code	Property Name	Well Number
	GOODNIGHT "35" FEDERAL	3
OSRD No.	Operator Name	Elevation
149678	KUKUI OPERATING COMPANY	3089'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	35	23 S	29 E		440	SOUTH	660	WEST	EDDY

Bottom Hole Location If Different From Surface

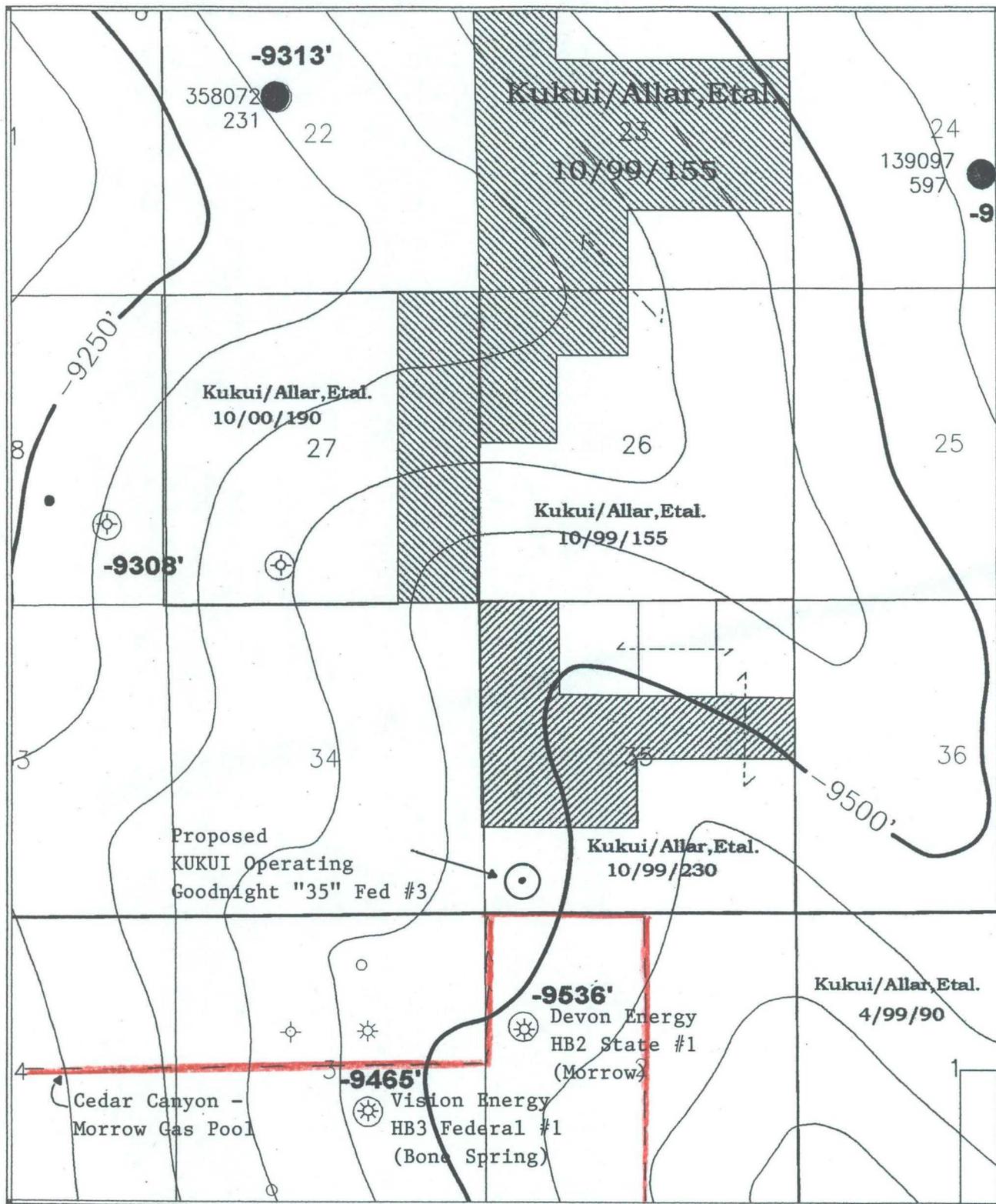
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
320			

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Joe T. Jancia</i> Signature Joe T. Jancia Printed Name Agent Title Date 07/17/01</p>
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>APRIL 12, 20012</p> <p>Date Surveyed Signature of Professional Surveyor Professional Surveyor <i>Harold E. Johnson</i> 04-11-0489 Certification No. 8839 12841</p>

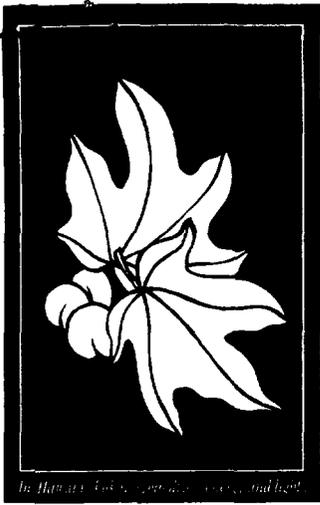
EXHIBIT "A"



LEGEND

 KUKUI LEASEHOLD—POTASH NSO

KUKUI OPERATING	
Southeast New Mexico Play Area GOODNIGHT PROSPECT, EDDY CO. MORROW LIME STRUCTURE MAP	
0: 50'	8/01
1": 3,000'	GDNPL1.GPJ



# KUKUI Operating Company

August 23, 2001

CERTIFIED MAIL, RETURN RECEIPT REQUESTED

(See Attached List)

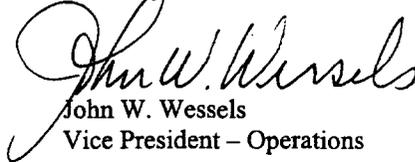
Re: Notice of Application for  
Exception to Rule 104

Gentlemen:

KUKUI Operating Company (KUKUI) is in the process of applying for an unorthodox location to test the Wolfcamp, Strawn, Atoka and Morrow zones at a location 660' FWL and 440' FSL of Section 35-T23S-R29E, Eddy County, New Mexico. The well is also designed to test the Bone Spring and Delaware sands at an optimum geological position. Due to a potash mining area, we are unable to permit the well at a legal location for the deeper gas zones. A copy of the application being made to the Oil Conservation Division (OCD) of the Energy, Minerals and Natural Resources Department of the State of New Mexico is attached for your review.

Our records indicate that you are an affected party as a result of this application. KUKUI respectfully requests that you waive any objections to the proposed location by executing this letter below and returning same in the self-addressed stamped envelope. Should you have an objection to this application, it must be filed in writing with the OCD within twenty days from the date the OCD receives the application. If you have any questions, please do not hesitate to give me a call. Thank you for your prompt attention to this matter.

Sincerely,

  
John W. Wessels  
Vice President - Operations

The undersigned hereby waives any objections to the proposed unorthodox location (Rule 104 exception) for Wolfcamp, Strawn, Atoka and/or Morrow production from the Goodnight "35" Federal No. 3.

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Company)

\_\_\_\_\_  
(Date)

Enclosure

NOTICE TO AFFECTED PERSONS  
GOODNIGHT "35" FEDERAL NO. 3  
APPLICATION FOR UNORTHODOX WELL LOCATION

Devon SFS Operating Inc.  
20 North Broadway, Suite 1500  
Oklahoma City, OK 73102-8260

Torch Oil & Gas Company  
1221 Lamar, Suite 1600  
Houston, TX 77010

Les Honeyman  
3806 Crestridge Dr.  
Midland, TX 79707

TCW DR II Royalty Partnership  
C/o Trust Company of West  
400 South Hope Street  
Los Angeles, CA 90071

CNG Producing Co.  
One West 3<sup>rd</sup> St., Suite 420  
Tulsa, OK 74103

Kaiser-Francis Oil Company  
P. O. Box 21468  
Tulsa, OK 74121

MBR Resources Inc.  
1250 ParkCenter  
525 South Main  
Tulsa, OK 74103

Santa Fe Snyder Corp.  
550 W. Texas Avenue., Suite 1330  
Midland, TX 79701

Vision Energy, Inc.  
P. O. Box 2459  
Carlsbad, NM 88221

Yates Petroleum Corporation  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

National Energy Group, Inc.  
1400 One Energy Square  
4925 Greenville Avenue  
Dallas, TX 75206

Yates Drilling Company  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

Bargo Energy Company  
700 Louisiana, Suite 4650  
Houston, TX 77002

Abo Petroleum Corp.  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

Felmont Oil & Gas Company  
350 Glenborough, Suite 300  
Houston, TX 77067

Myco Industries Inc.  
105 S. 4<sup>th</sup> Street  
Artesia, NM 88210

Taylorco, Inc.  
P. O. Box 0667  
Neptune, NJ 07754

Enron Oil & Gas Company  
1400 Smith Street  
Houston, TX 77002

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

RECEIVED

FORM APPROVED  
OMB No. 1004-0135  
Expires November 30, 2000

**SUNDRY NOTICES AND REPORTS ON WELLS** JUL 25 2001  
Do not use this form for proposals to drill or to re-enter an abandoned well. Use Form 3160-3 (APD) for such proposals. **KUKUI - Midland**

**SUBMIT IN TRIPLICATE - Other Instructions on reverse side**

1. Type of Well  
 Oil Well  Gas Well  Other

2. Name of Operator  
**KUKUI OPERATING COMPANY (LARRY STRIDER)**

3a. Address **203 WEST WALL SUITE 810 MIDLAND, TEXAS 79701**

3b. Phone No. (include area code)  
**915-687-6200**

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)  
**660' FWL & 440' FSL SEC. 35 T23S-R29E EDDY CO. NM**  
**BHL 660' FSL & 660' FWL SEC. 35 T23S-R29E EDDY CO. NM**

5. Lease Serial No.  
**NM-103604**

6. If Indian, Allottee or Tribe Name

7. If Unit or CA/Agreement, Name and/or No.

8. Well Name and No.  
**GOODNIGHT "35" FEDERAL # 3**

9. API Well No.  
**30-015-31865**

10. Field and Pool, or Exploratory Area  
**CEDER CANYON-MORROW**

11. County or Parish, State  
**EDDY CO. NEW MEXICO**

**12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA**

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input type="checkbox"/> Other <u>Alter depth</u>
	<input checked="" type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	from <u>8500'</u> to
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	<u>14,300'</u>

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

**R-111-P-POTASH**

- Kukui Operating Company requests the approval to alter the depth of the above referenced well from 8500' to 14,300'.
- Original APD filed with BLM on 01/23/01 and approved by BLM 06/19/01.
- Attached is a revised depth, casing program, mud program, cementing program and all other related data necessary to extend the depth of this well.
- This will be a directionally drilled well to comply with the OCD spacing rules bottom hole will be 660' FWL & 660' FSL SEC 35 T23S-R29E

**APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS ATTACHED**

14. I hereby certify that the foregoing is true and correct

Name (Printed/Typed) **Joe T. Janica** Title **Agent**

Signature *Joe T. Janica* Date **07/17/01**

THIS SPACE FOR FEDERAL, OR STATE OFFICE USE

Approved by *Alexis C. Swoboda* Title **PETROLEUM ENGINEER** Date **JUL 23 2001**

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Office

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

DISTRICT I  
P.O. Box 1000, Santa Fe, NM 87501-1000

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised February 10, 1984  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 8 Copies

DISTRICT II  
P.O. Box 1000, Santa Fe, NM 87501-1000

**OIL CONSERVATION DIVISION**

P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

DISTRICT III  
1000 No. Main St., Santa Fe, NM 87501

DISTRICT IV  
P.O. Box 1000, Santa Fe, NM 87501-1000

**WELL LOCATION AND ACREAGE DEDICATION PLAT**

AMENDED REPORT

API Number	Pool Code	Pool Name
	74480	CEDER CANYON - MORROW
Property Code	Property Name	Well Number
	GOODNIGHT "35" FEDERAL	3
OGSD No.	Operator Name	Elevation
149678	KUKUI OPERATING COMPANY	3089'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	35	23 S	29 E		440	SOUTH	660	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

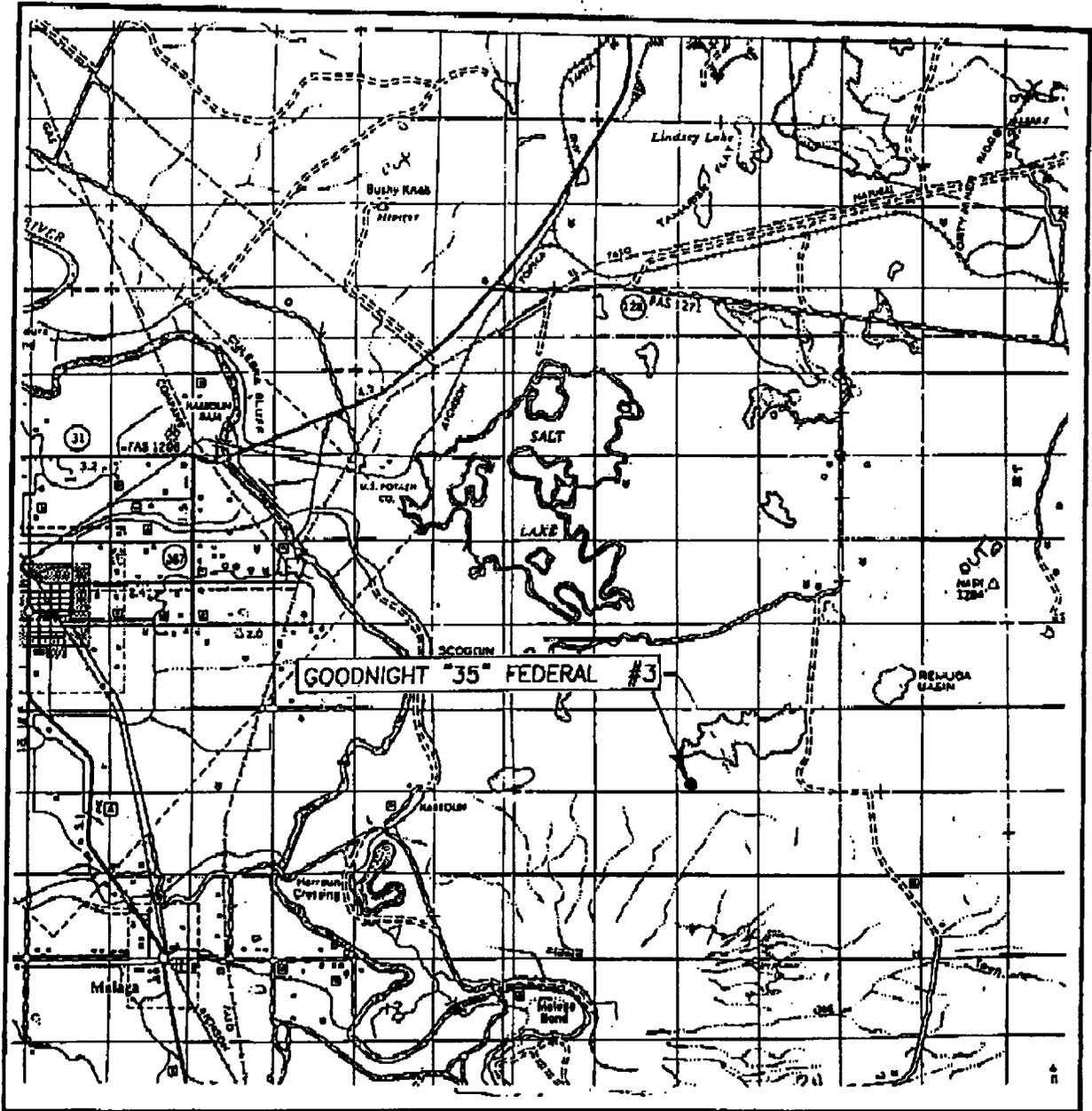
Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
320			

**NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION**

	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Joe T. Janica</i> Signature</p> <p>Joe T. Janica Printed Name</p> <p>Agent Title</p> <p>07/17/01 Date</p>
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.</p> <p>APRIL 12, 20012</p> <p>Date Surveyed</p> <p>Signature of Surveyor Professional Surveyor</p> <p><i>Ronald E. Johnson</i> 04-11-0489</p> <p>Certificate No. RONALD E. JOHNSON 5839 STATE OF NEW MEXICO 18641</p>
	<p>AWB</p>
	<p>PROFESSIONAL SURVEYOR</p>

EXHIBIT "A"

# VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 35 TWP. 23-S RGE. 29-E  
 SURVEY N.M.P.M.  
 COUNTY EDDY  
 DESCRIPTION 440' FSL & 660' FWL  
 ELEVATION 3089'  
 OPERATOR KUKUI OPERATING COMPANY  
 LEASE GOODNIGHT "35" FEDERAL

**JOHN WEST SURVEYING**  
**HOBBS, NEW MEXICO**  
**(505) 393-3117**

# LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:  
REMUDA BASIN NM- 10'

SEC. 35 TWP. 23-S RGE. 29-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 440' FSL & 660' FWL

ELEVATION 3089'

OPERATOR KUKUI OPERATING COMPANY

LEASE GOODNIGHT "35" FEDERAL

U.S.G.S. TOPOGRAPHIC MAP  
REMUDA BASIN, NM

**JOHN WEST SURVEYING**  
**HOBBS, NEW MEXICO**  
**(505) 393-3117**

KUKUI Operating Company  
 Goodnight '35' Federal #3 - NM-103604  
 660' FWL, 440' FSL  
 Sec. 35 - T 23S - R 29E  
 Eddy County, New Mexico  
 Proposed Total Depth: 14,300' TVD

**DRILLING PROGRAM**

1.) **Estimated Formation Tops:**

<u>Formation</u>	<u>Est. Depth</u>
Salado Salts	600'
Lamar	3185'
Bell Canyon	3235'
Cherry Canyon (Manzanita)	4200'
Brushy Canyon	5655'
Lower Brushy Canyon Shale	6635'
Bone Spring Formation	6900'
First Bone Spring Sand	7935'
Second Bone Spring Sand	8750'
Third Bone Spring Sand	9800'
Wolfcamp	10500'
Strawn	12150'
Atoka	12400'
Morrow	13350'
Lower Morrow	13850'
Barnett	13960'

2.) **Estimated Depths of Anticipated Minerals:**

- Fresh Water - Surface to 350'.  
 - Operator plans to set 13 3/8" surface casing to 400' and cement to surface.
- Salt Section - 600' - 2,500'.  
 Operator plans to set 9 5/8" salt protection string to 3,100' and cement to surface.
- Hydrocarbons - Atoka and Morrow formations with depths ranging from 12,800' to 14,200'.  
 - Bone Spring and Delaware formations ranging from 4,000' to 8,200'.  
 - Operator plans to set 7" intermediate/production casing to approx. 10,550' (100' into top of Wolfcamp). Top of cement will be dictated by geology and hydrocarbons encountered from Delaware to top of Wolfcamp.

3.) **Minimum Specifications for Pressure Control Equipment:**

<u>Interval</u>	<u>Depths</u>	<u>Hole Size</u>	<u>BOP's</u>
Surface	0'-400'	17 1/2"	Divertor head
Salt Protection	400'-3,100'	12 1/4"	3M-13 5/8 - A
Int./Production	3,100'-10,550'	8 3/4"	5M-11 - SRRAG
Production Liner	TD - 10,150'	6 1/8"	10M-7 1/16-SRRAG

The accumulator system will have three times the volume necessary to close everything on the BOP stack. A 10M choke manifold will be utilized with minimum 3" nominal diameter inlet line and 2" nominal diameter downstream lines. Manifold, lines, and BOP's will be tested as described in Onshore Order No. 2.

4.) **Proposed Casing Program:**

<u>Interval</u>	<u>Depths</u>	<u>Hole Size</u>	<u>Casing Specified (New)</u>
Conductor	0-40'	~ 24"	20" Structural - only if required
Surface	0-400'	17 1/2"	13 3/8", 48 lbs./ft., H-40, ST&C
Salt Protection	0-3,100'	12 1/4"	9 5/8", 36 lbs./ft., K-55, ST&C
Intermediate/Production	0-10,550'	8 3/4"	7", 26 lbs./ft., P-110, LT&C
Production Liner	10,150'-14,100'	6 1/8"	4 1/2", 13.5 lbs./ft., P-110, LT&C

**WITNESS  
WITNESS**

5.) **Proposed Cementing Program:**

Surface Casing: 400' of 13 3/8" casing in 17 1/2" hole with 100% excess. Cement to be circulated to surface.

500 sacks Class C + 2% CaCl<sub>2</sub>

1.34 ft.<sup>3</sup>/sk.  
14.8 lbs./gal.  
6.36 gals./sk.

Salt Protection: 3,100' of 9 5/8" in 12 1/4" hole with 150% excess in open hole. Cement to be circulated to surface.

Lead cement - 1,000 sacks light cement + 5% salt + lost circulation material as required.

12.5 lbs./gal.  
2.03 ft.<sup>3</sup>/sk.  
11.0 gals./sk.

Tail cement - 200 sacks Class C + 1% CaCl<sub>2</sub>

14.8 lbs./gal.  
1.34 ft.<sup>3</sup>/sk.  
6.36 gals./sk.

Intermediate/Production: 10,550' of 7" in 8 3/4" hole.  
Volume calculated for 2,000' of fill (assuming no hydrocarbons above casing seat) with 100% excess.

510 sacks Class H + fluid loss additives and lost circulation material as required.

15.6 lbs./gal.  
1.18 ft.<sup>3</sup>/sk.  
5.2 gals./sk.

Note: Top of Cement will depend on geology and hydrocarbon potential evaluated during drilling operations. A 2-stage primary cement job will be performed if upper strata of interval appear productive.

Production Liner: Approximately 3,550' of 4 1/2" in 6 1/8" hole. Liner hanger set at ~ 10,150'. Cement volume calculated with 50% excess.

435 sacks Class H + dispersant + fluid loss additives + retarder/accelerator as required for acceptable thickening time tests.

15.2 lbs./gal.  
1.26 ft.<sup>3</sup>/sk.  
5.68 gals./sk.

Float shoes, float collars, and centralizers will be utilized where feasible. Casing will be reciprocated during cementing operations when possible. Fluid spacers and top wiper plugs will be utilized on each job.

6.) **Mud Program:**

- Surface to 400': Spud with gel/lime water base fluid having 34-36 sec./qt. viscosity with lost circulation material as required. Fluid viscosity may be increased to 45-50 sec./qt. in the event circulation becomes a problem. Anticipate loss of circulation.
- 400' to 3,100': Brine/Native System with lime for pH control and drilling paper/fibrous material for lost circulation control. Mix salt gel system @ 10 ppg, viscosity 39-42 sec./qt., fluid loss 12-15 ml/30 min. if hole conditions warrant.
- 3,100' - 10,550': Controlled Brine/Native System with pH of 9.5-10.5, mud weight of 8.8-9.2 ppg, and total solids < 1.5%. Utilize salt gel sweeps for hole cleaning.
- 10,550' - 14,100': Drill out below 7" casing with 10 ppg brine with pH 9.5-10.5. Prior to top of Strawn formation mix Duo-Vis/Polypac or equivalent system with 36-38 sec./qt., 6-10 ml./30 min. or less fluid loss, and barite as required for weighting mud system. Mud weights and viscosity will be adjusted as dictated by hole conditions. A 12.0-12.5 ppg system may be required for pressure control.

Adequate amounts of LCM and barite will be on location to control circulation and maintain bottom hole pressures. Minimum kick detection equipment will include a mud return indicator (flow line sensor) and pit volume totalizer (PVT).

7.) **Anticipated Testing, Coring, and Logging:**

Mud Logger - On site @ 2,950' (above Lamar)

Potential DST Zones - Wolfcamp, Atoka, Morrow

Logging Program:

	<u>Log Suite</u>	<u>Intervals</u>
Run #1	AIT-GR CNL-LDT-GR	Base Delaware - Base Short Intermediate Casing Base Delaware - Base Short Intermediate Casing (GR - Neutron to Surface)
	Rotary Sidewall Cores	Selected Intervals in the Bell & Cherry Canyon Section
Run #2	DLL-MSFL-GR CNL-LDT-GR	Top Wolfcamp - Base Delaware Top Wolfcamp - Base Delaware
Run #3	DLL-MSFL-GR CNL-LDT-GR	TD - Top Wolfcamp TD - Top Wolfcamp

8.) **ANTICIPATED BOTTOM HOLE PRESSURE:**

The Wolfcamp formation (10,500' - 12,150') and Atoka formation (12,400' - 13,350') may be over pressured. Bottom hole pressures in the 8,000 psi - 8,500 psi range may exist.

9.) **Operations:**

An approved drilling permit for an 8,500' Bone Spring test was granted on June 19, 2001. KUKUI is respectfully submitting a revised well plan to deepen this well to test the Morrow formation. The anticipated spud date is mid August, 2001. Estimated drilling time is approximately 50 days.

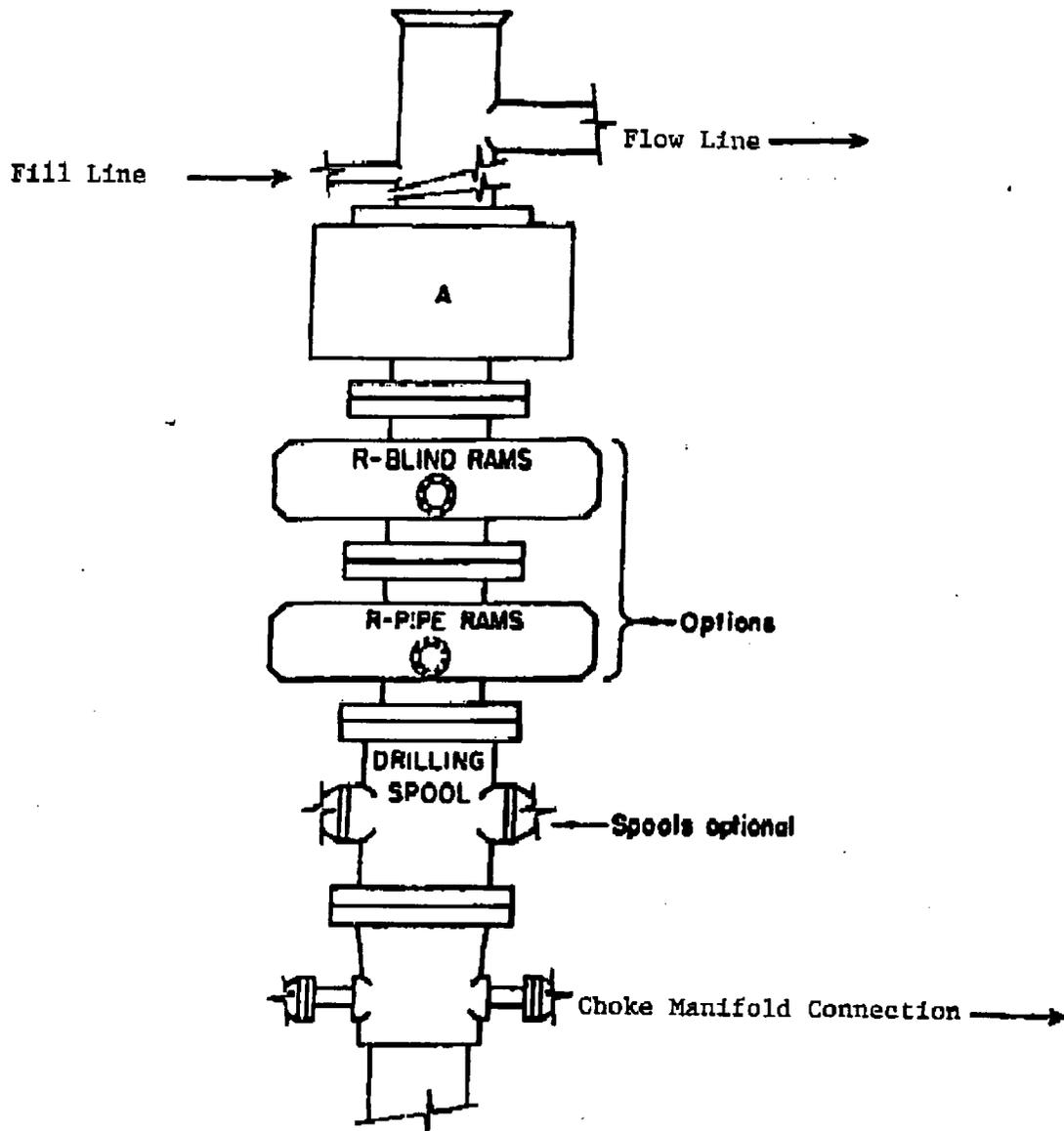
The Goodnight '35' Federal #1 well is in the Potash Mining Area. Order No. R-111-P rules and regulations will be followed in addition to all BLM and OCD requirements.

KUKUI Operating Company  
203 W. Wall St., Suite 810  
Midland, TX. 79701

Larry K. Strider  
Joe T. Janica

Western District Manager  
Tierra Exploration

915/627-6200  
505/391-8503



**ARRANGEMENT SRAA**

1500 Series  
5000 PSI WP

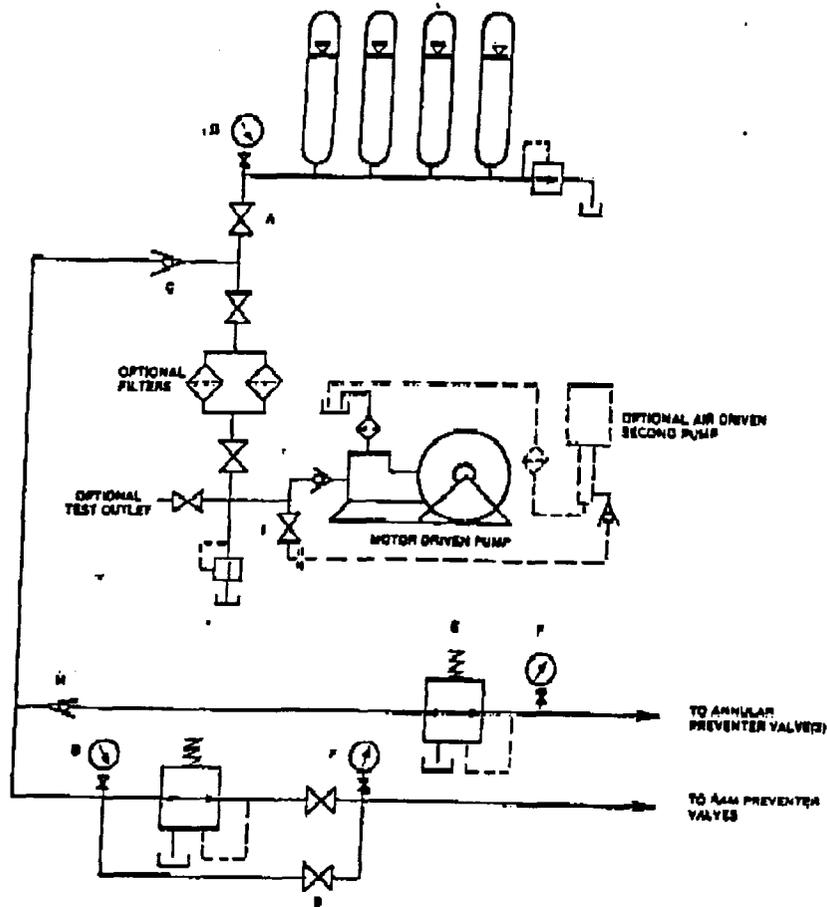


FIGURE K6-1. The schematic sketch of an accumulator system shows required and optional components.

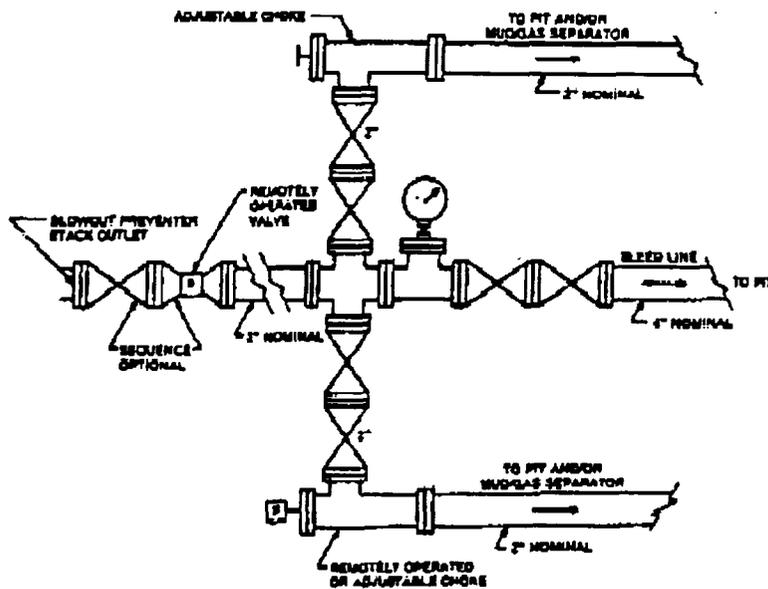


FIGURE K6-2. Typical choke manifold assembly for JM rated working pressure service - surface installations.

## CONDITIONS OF APPROVAL - DRILLING

Operator's Name: Kukul Operating Company  
Well Name & No. Goodnight 35 Federal #3  
SHL Location: 440' FSL, 660' FWL, Section 35, T. 23 S., R. 29 E., Eddy County, New Mexico  
BHL Location: 660' FSL, 660' FWL, Section 35, T. 23 S., R. 29 E., Eddy County, New Mexico  
Lease: NM-103604

### I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at the Carlsbad Field Office, 620 East Greene St., Carlsbad, NM 88220, (505) 234-5972 for wells in Eddy County in sufficient time for a representative to witness:
  - A. Spudding
  - B. Cementing casing: 13-3/8 inch 9-5/8 inch 7 inch 4-1/2 inch liner
  - C. BOP tests
2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval.
3. Submit a Sundry Notice (Form 3160-5, one original and five copies) for each casing string, describing the casing and cementing operations. Include pertinent information such as; spud date, hole size, casing (size, weight, grade and thread type), cement (type, quantity and top), water zones and problems or hazards encountered. The Sundry shall be submitted within 15 days of completion of each casing string. The reports may be combined into the same Sundry if they fall within the same 15 day time frame.
4. The API No. assigned to the well by NMOCDC shall be included on the subsequent report of setting the first casing string.
5. Gamma-Ray/Neutron logs shall be run from the base of the Salado formation to the surface; cable speed not to exceed 30 feet per minute.

### II. CASING:

1. The 13-3/8 inch surface casing shall be set at approximately 400 feet in the top of the Rustler Anhydrite and cement circulated to the surface. If cement does not circulate to the surface the appropriate BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.
2. The minimum required fill of cement behind the 9-5/8 inch intermediate casing is to be sufficient to circulate to the surface.
3. The minimum required fill of cement behind the 7 inch second intermediate/production casing is to be sufficient to circulate to the surface.
4. The minimum required fill of cement behind the 4-1/2 inch production liner is to be sufficient to circulate to the top of the liner.
4. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or inflating tests.

### III. PRESSURE CONTROL:

1. All BOP systems and related equipment shall comply with well control requirements as described in Onshore

Oil and Gas Order No. 2. The BOP and related equipment shall be installed and operational before drilling below the 13-3/8 inch casing shoe and shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

2. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling the surface and the intermediate casing shall be 2000 psi.

3. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the intermediate casing shall be 5000 psi.

4. Minimum working pressure of the blowout preventer and related equipment (BOPE) required for drilling below the 7 inch second intermediate/production casing shall be 10000 psi.

5. The appropriate BLM office shall be notified in sufficient time for a representative to witness the tests.

- The tests shall be done by an independent service company.
- The results of the test shall be reported to the appropriate BLM office.
- Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.
- Testing must be done in a safe workman-like manner. Hard line connections shall be required.

#### **IV. DRILLING MUD:**

Mud system monitoring equipment, with derrick floor indicators and visual and audio alarms, shall be operating before drilling into the Wolfcamp formation, and shall be used until production casing is run and cemented. Monitoring equipment shall consist of the following:

- Recording pit level indicator to indicate volume gains and losses.
- Mud measuring device for accurately determining the mud volumes necessary to fill the hole during trips.
- Flow-sensor on the flow-line to warn of abnormal mud returns from the well.

acs  
7/23/2001



W/CREG)

United States Department of the Interior

BUREAU OF LAND MANAGEMENT  
New Mexico State Office  
1474 Rodeo Rd.  
P.O. Box 27115  
Santa Fe, New Mexico 87502-0115

IN REPLY REFER TO:  
3160 (08200)  
NM-103604

JUN 20 2001

CERTIFIED--RETURN RECEIPT REQUESTED  
7000 0520 0019 0452 7233

RECEIVED

JUN 28 2001

KUKUI - Houston

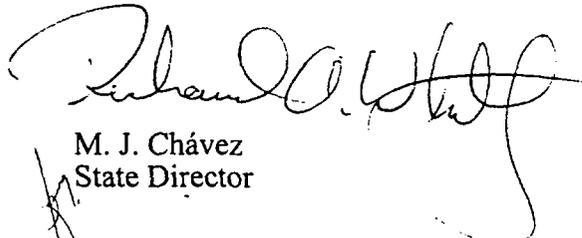
Kukui Operating Company  
601 Vestavia Parkway, Suite 240  
Vestavia, AL 35216

RE: Goodnight "35" Federal #3  
NM-103604  
440'S & 660'W , Sec. 35, T23S, R29E  
Eddy County, New Mexico

Dear Mr. Strider,

I have approved your application at the well location requested. A copy of the approved application with stipulations is enclosed. Please contact our Carlsbad Field Office at (505) 234-5972, should you have any questions or if we can be of any additional help.

Sincerely,



M. J. Chávez  
State Director

1 Enclosure

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR DEEPEN

1a. TYPE OF WORK  
DRILL  DEEPEN

b. TYPE OF WELL  
OIL WELL  GAS WELL  OTHER   
SINGLE ZONE  MULTIPLE ZONE

2. NAME OF OPERATOR  
KUKUI OPERATING COMPANY (LARRY STRIDER) Ph. 205-823-2977

3. ADDRESS AND TELEPHONE NO.  
601 VESTAVIA PARKWAY  
SUITE 240 VESTAVIA, ALABAMA 35216

4. LOCATION OF WELL (Report location clearly and in accordance with any State requirements.)\*  
At surface  
440' 660' FSL & 660' FWL SEC. 35 T23S-R29E EDDY CO. NM  
At proposed prod. zone SAME

5. LEASE DESIGNATION AND SERIAL NO.  
NM-103604

6. IF INDIAN, ALLOTTEE OR TRIBE NAME

7. UNIT AGREEMENT NAME

8. FARM OR LEASE NAME WELL NO.  
GOODNIGHT "35" FEDERAL #

9. AN WELL NO.

10. FIELD AND POOL, OR WILDCAT  
CEDAR CANYON-UNDES.

11. SEC., T., R., M., OR BLK. AND SURVEY OR AREA  
SEC. 35 T23S-R29E

12. COUNTY OR PARISH  
EDDY CO.

13. STATE  
NM

14. DISTANCE IN MILES AND DIRECTION FROM NEAREST TOWN OR POST OFFICE\*  
Approximately 10 miles East of Loving New Mexico.

15. DISTANCE FROM PROPOSED\* LOCATION TO NEAREST PROPERTY OR LEASE LINE, FT. (Also to nearest drlg. unit line, if any)  
660'

16. NO. OF ACRES IN LEASE  
320

17. NO. OF ACRES ASSIGNED TO THIS WELL  
40

18. DISTANCE FROM PROPOSED LOCATION\* TO NEAREST WELL, DRILLING, COMPLETED, OR APPLIED FOR, ON THIS LEASE, FT.  
8500'

19. PROPOSED DEPTH  
8500'

20. ROTARY OR CABLE TOOLS  
ROTARY

21. ELEVATIONS (Show whether DF, RT, GR, etc.)  
3092' GR.

22. APPROX. DATE WORK WILL START\*  
WHEN APPROVED

23. Secretary's Potash R-111-P Potash PROPOSED CASING AND CEMENTING PROGRAM Carbide Controlled Water Basin

SIZE OF HOLE	GRADE SIZE OF CASING	WEIGHT PER FOOT	SETTING DEPTH	QUANTITY OF CEMENT
24"	Conductor	NA	40'	Cement to surface with Redi-mix
17 1/2"	H-40 13 3/8"	48	350' 400'	400 Sx. <del>with</del> cement to sur.
12 1/2"	J-55 8 5/8"	24	3100'	1200 Sx. <del>with</del> " " "
7 7/8"	J-55, N-80 5 1/2"	17 & 15.5	8500'	2000 Sx. Top of cement 2800'

- Drill 24" hole to 40'. Set 40' of 20" conductor pipe and cement to surface with Redi-mix.
- Drill 17 1/2" hole to 350'. Run and set 350' of 13 3/8" H-40 48# ST&C casing. Cement with 400 Sx. of Class "C" cement + 2% CaCl + 1/2# of Flocele/Sx. circulate cement to surface.
- Drill 12 1/2" hole to 3100'. Run and set 3100' of 8 5/8" J-55 24# ST&C casing. Cement with 1000 Sx. of Class "C" Halco Light cement + additives, tail in with 200 Sx. of Class "C" cement + 2% CaCl + 1/2# Flocele/Sx. circulate cement to surface.
- Drill 7 7/8" hole to 8500'. Run and set 8500' of 5 1/2" N-80 & J-55 casing as follows: 1000' of 5 1/2" N-80 17# LT&C, 7500' of 5 1/2" J-55 17# LT&C casing. Cement with 1500 Sx. of Halco Light + additives, tail in with 500 Sx. of Class "H" + additives, Estimate top of cement 2800'.

APPROVAL SUBJECT TO  
GENERAL REQUIREMENTS AND  
SPECIAL STIPULATIONS  
ATTACHED

IN ABOVE SPACE DESCRIBE PROPOSED PROGRAM: If proposal is to deepen, give data on proposed productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depth of proposed productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depth of proposed productive zone. If proposal is to drill or deepen directionally, give pertinent data on subsurface locations and measured and true vertical depth of proposed productive zone.

34. SIGNED Joel Janice TITLE Agent DATE 01/23/01

(This space for Federal or State office use)

PERMIT NO. \_\_\_\_\_ APPROVAL DATE \_\_\_\_\_

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

CONDITIONS OF APPROVAL, IF ANY:  
APPROVED BY Paul Dawley TITLE Acting State Director DATE 1/19/01  
ASSIC State Dir

\*See Instructions On Reverse Side APPROVAL FOR 1 YEAR

UNITED STATES  
DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT

FORM APPROVED  
OMB No. 1004-0135  
Expires November 30, 2000

**SUNDRY NOTICES AND REPORTS ON WELLS**  
Do not use this form for proposals to drill or to re-enter an  
abandoned well. Use Form 3160-3 (APD) for such proposals.

75

**SUBMIT IN TRIPLICATE - Other instructions on reverse side**

1. Type of Well  
 Oil Well    Gas Well    Other

2. Name of Operator  
 KUKUI OPERATING COMPANY (LARRY STRIDER)

3a. Address 610 VESTAVIA PARKWAY SUITE 240   3b. Phone No. (include area code)  
 VESTAVIA, ALABAMA 35216   205- 823-2977

4. Location of Well (Footage, Sec., T., R., M., or Survey Description)  
 660' FWL & 440' FSL SEC. 35 T23S-R29E EDDY CO. NM

5. Lease Serial No.  
 NM-103604

6. If Indian, Allottee or Tribe Name  
 -----

7. If Unit or CA/Agreement, Name and/or No.  
 -----

8. Well Name and No.  
 GOODNIGHT "35" FEDERAL # 3

9. API Well No.

10. Field and Pool, or Exploratory Area  
 CEDAR CANYON -UNDES.

11. County or Parish, State  
 EDDY CO. NEW MEXICO

**12. CHECK APPROPRIATE BOX(ES) TO INDICATE NATURE OF NOTICE, REPORT, OR OTHER DATA**

TYPE OF SUBMISSION	TYPE OF ACTION			
<input checked="" type="checkbox"/> Notice of Intent	<input type="checkbox"/> Acidize	<input type="checkbox"/> Deepen	<input type="checkbox"/> Production (Start/Resume)	<input type="checkbox"/> Water Shut-Off
<input type="checkbox"/> Subsequent Report	<input type="checkbox"/> Alter Casing	<input type="checkbox"/> Fracture Treat	<input type="checkbox"/> Reclamation	<input type="checkbox"/> Well Integrity
<input type="checkbox"/> Final Abandonment Notice	<input type="checkbox"/> Casing Repair	<input type="checkbox"/> New Construction	<input type="checkbox"/> Recomplete	<input type="checkbox"/> Other <u>Move location</u>
	<input type="checkbox"/> Change Plans	<input type="checkbox"/> Plug and Abandon	<input type="checkbox"/> Temporarily Abandon	
	<input type="checkbox"/> Convert to Injection	<input type="checkbox"/> Plug Back	<input type="checkbox"/> Water Disposal	

13. Describe Proposed or Completed Operation (clearly state all pertinent details, including estimated starting date of any proposed work and approximate duration thereof. If the proposal is to deepen directionally or recomplete horizontally, give subsurface locations and measured and true vertical depths of all pertinent markers and zones. Attach the Bond under which the work will be performed or provide the Bond No. on file with BLM/BIA. Required subsequent reports shall be filed within 30 days following completion of the involved operations. If the operation results in a multiple completion or recompletion in a new interval, a Form 3160-4 shall be filed once testing has been completed. Final Abandonment Notices shall be filed only after all requirements, including reclamation, have been completed, and the operator has determined that the site is ready for final inspection.)

- Kukui Operating Company requests the approval to move the location of their Goodnight "35" Federal # 3 well from: 660' FSL & 660' FWL Sec. 35 T23S-R29E Eddy Co. NM.  
to: 440' FSL & 660' FWL Sec. 35 T23S-R29E Eddy Co. NM.
- The reason for this move is to comply with the suggestion of the Mining Engineer in order to be able to get approval to drill this well.

14. I hereby certify that the foregoing is true and correct

Name (Printed/Typed) Joe T. Janice   Title Agent

Signature *Joe T. Janice*   Date 04/16/01

THIS SPACE FOR FEDERAL OR STATE OFFICE USE

Approved by *Richard A. Wolfe*   Title Assoc State Dir   Date 4/19/01

Conditions of approval, if any, are attached. Approval of this notice does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

*Richard A. Wolfe*   ACTING STATE DIRECTOR   Office N.M.S.D.

RECEIVED  
 APR 17 10 15  
 BLM

DISTRICT II  
P.O. Drawer DD, Artesia, NM 86211-0719

# OIL CONSERVATION DIVISION

P.O. Box 2088

Santa Fe, New Mexico 87504-2088

DISTRICT III  
1000 Rio Brazos Ed., Artec, NM 87410

DISTRICT IV  
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

## WELL LOCATION AND ACREAGE DEDICATION PLAT

AMENDED REPORT

API Number		Pool Code	Pool Name CEDAR CANYON UNDES.
Property Code 25703	Property Name GOODNIGHT "35" FEDERAL		Well Number 3
OGRID No. 149678	Operator Name KUKUI OPERATING COMPANY		Elevation 3089'

### Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
M	35	23 S	29 E		440	SOUTH	660	WEST	EDDY

### Bottom Hole Location If Different From Surface

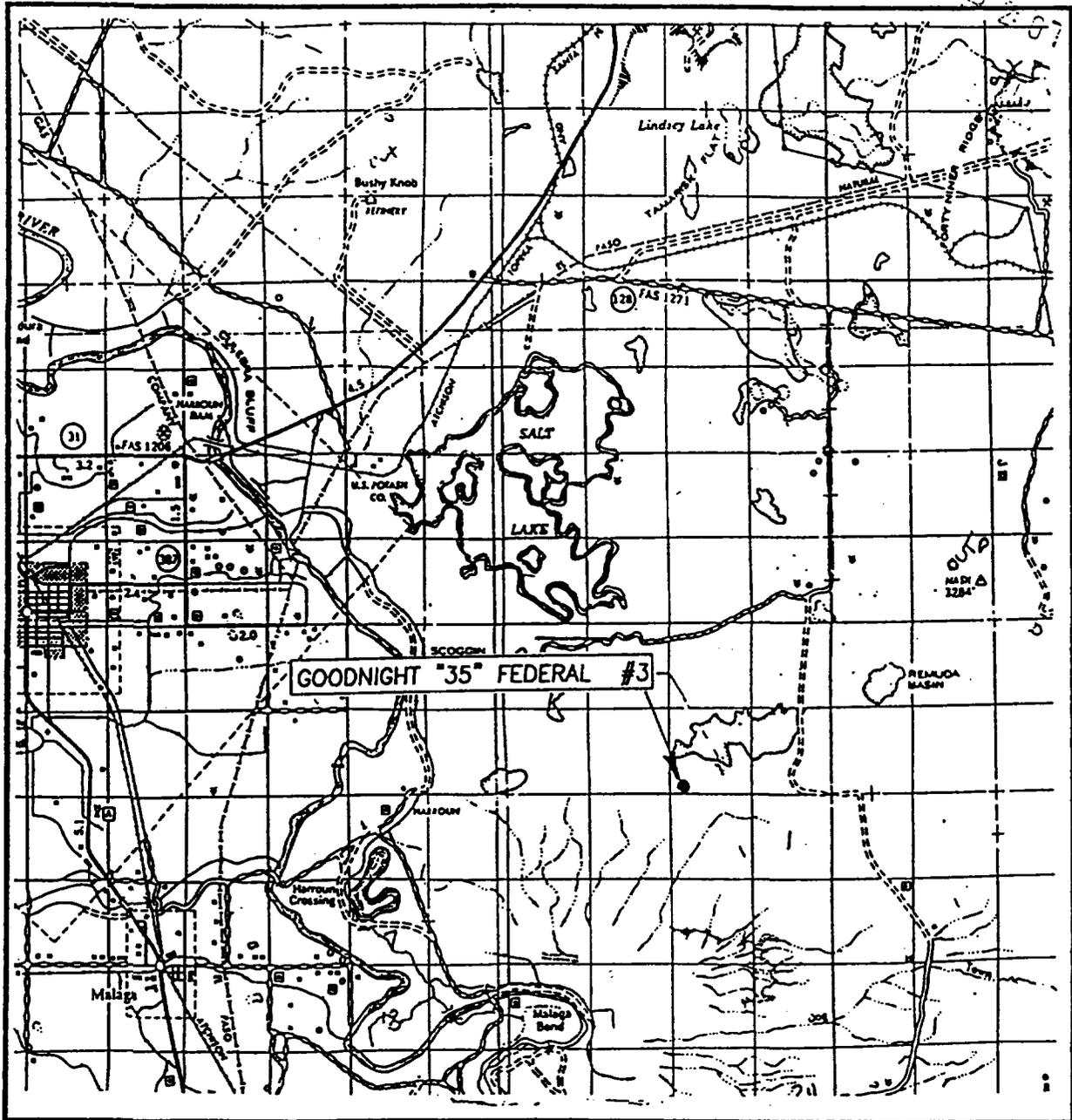
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
40			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Joe T. Janica</i> Signature</p> <p>Joe T. Janica Printed Name</p> <p>Agent Title</p> <p>04/16/01 Date</p>		
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</p> <p>APRIL 12, 20012</p> <p>Date Surveyed _____ AWB</p> <p>Signature &amp; Seal of Professional Surveyor <i>Ronald A. Edson</i> 04/13/01 01-11-0469</p>		
	<p>RECEIVED APR 17 2001 5:55</p>		
	<p>Certificate No. RONALD A. EDSON 3259 GARY KIDSON 12641</p>		

# VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 35 TWP. 23-S RGE. 29-E

SURVEY \_\_\_\_\_ N.M.P.M.

COUNTY EDDY

DESCRIPTION 440' FSL & 660' FWL

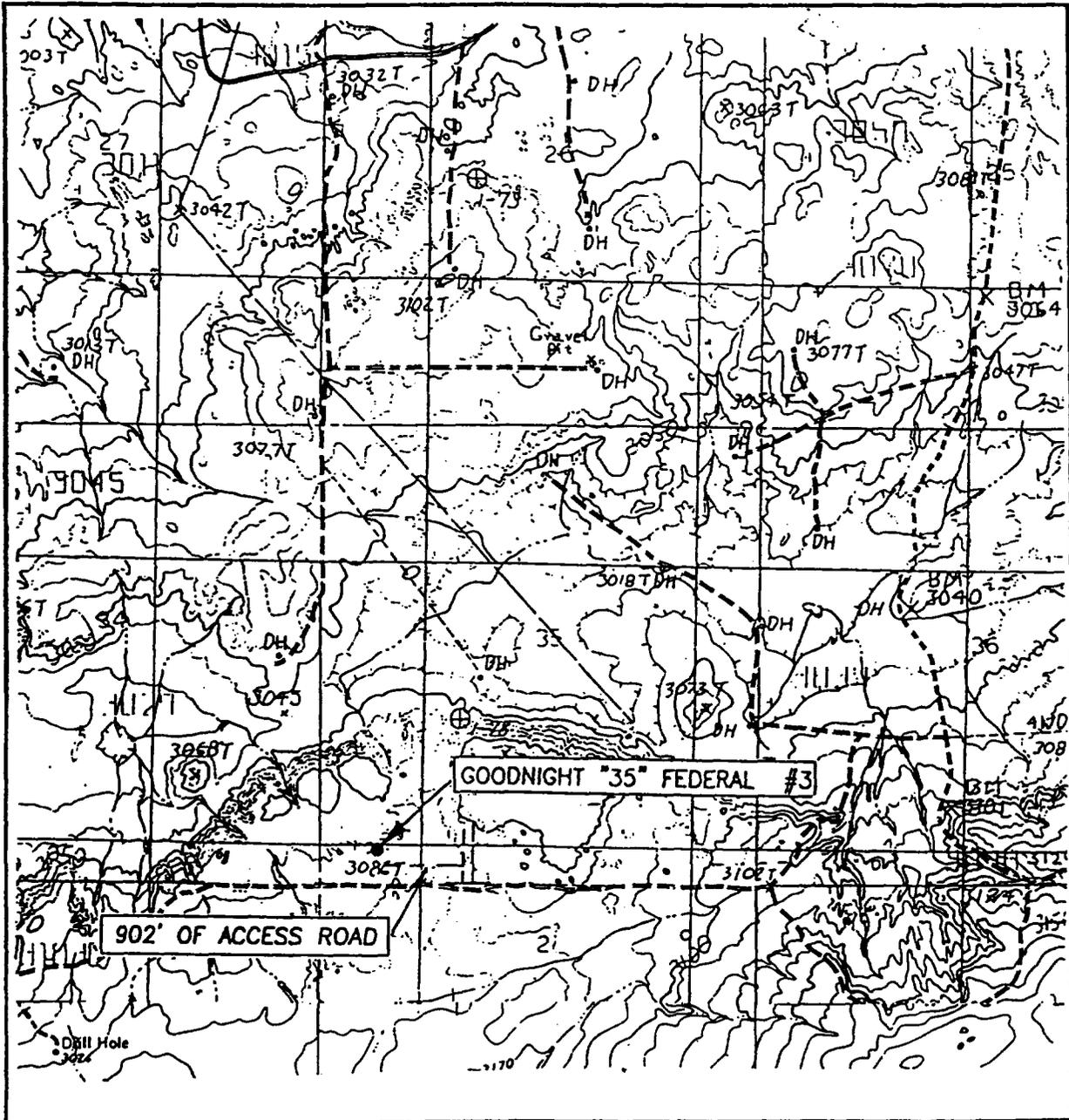
ELEVATION 3089'

OPERATOR KUKUI OPERATING COMPANY

LEASE GOODNIGHT 35 FEDERAL

JOHN WEST SURVEYING  
 HOBBS, NEW MEXICO  
 (505) 393-3117

# LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:  
REMUDA BASIN NM- 10'

SEC. 35 TWP. 23-S RGE. 29-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 440' FSL & 660' FWL

ELEVATION 3089'

OPERATOR KUKUI OPERATING COMPANY

LEASE GOODNIGHT "35" FEDERAL

U.S.G.S. TOPOGRAPHIC MAP  
REMUDA BASIN, NM

JOHN WEST SURVEYING  
HOBBS, NEW MEXICO  
(505) 393-3117

DISTRICT I  
P.O. Box 1980, Hobbs, NM 88241-1980

DISTRICT II  
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III  
1000 Rio Brazos Rd., Artesia, NM 87410

DISTRICT IV  
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

State of New Mexico  
Energy, Minerals and Natural Resources Department

Form C-102  
Revised February 10, 1994  
Submit to Appropriate District Office  
State Lease - 4 Copies  
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION  
P.O. Box 2088  
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name CEDAR CANYON UNDES.
Property Code 25703	Property Name GOODNIGHT "35" FEDERAL	Well Number 3
OGRID No. 149678	Operator Name KUKUI OPERATING COMPANY	Elevation 3092

Surface Location

UL or lot No.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County
M	35	23 S	29 E		660	SOUTH	660	WEST	EDDY

Bottom Hole Location If Different From Surface

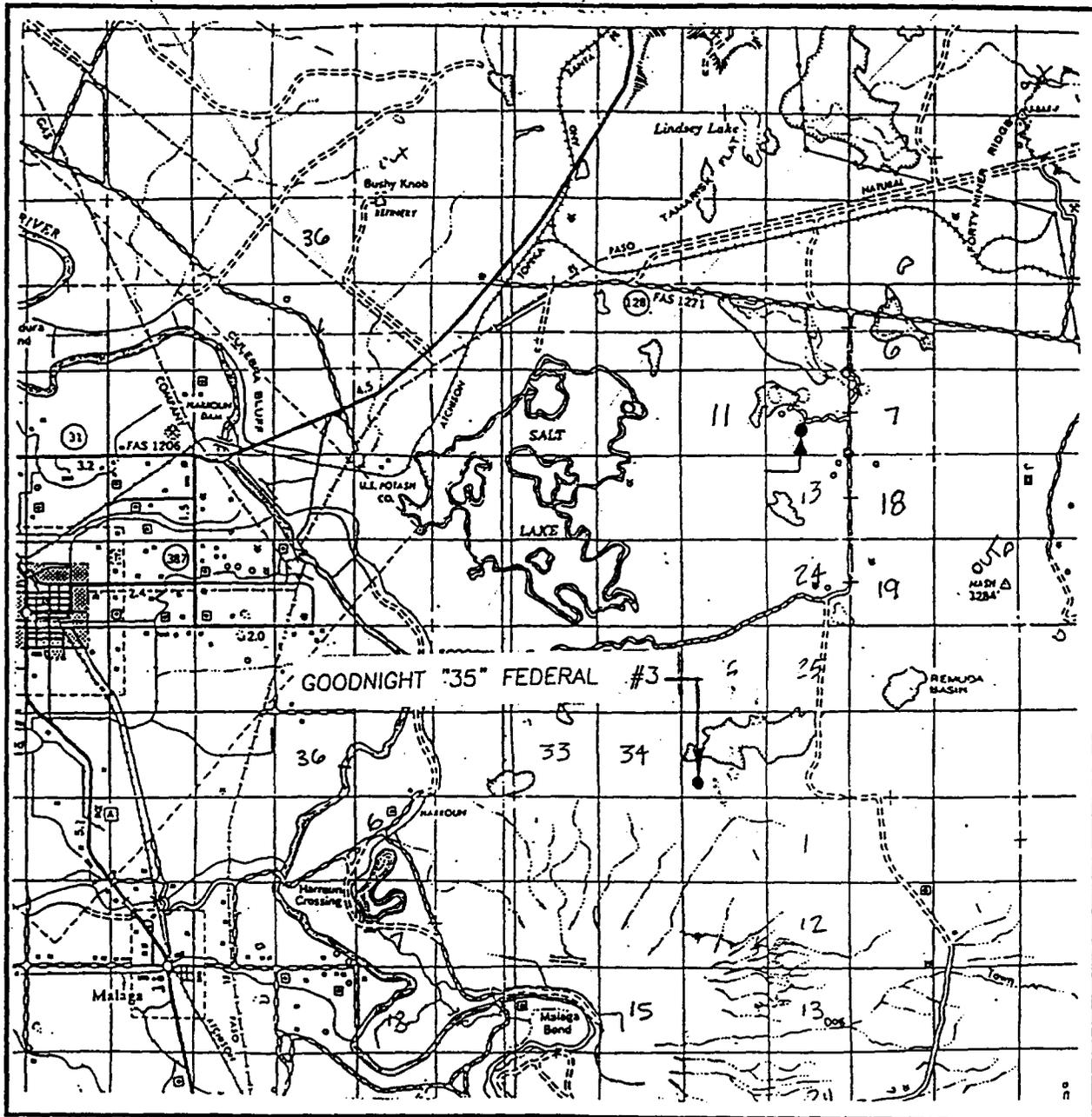
UL or lot No.	Section	Township	Range	Lot Ida	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.
40			

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p><b>OPERATOR CERTIFICATION</b></p> <p>I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Joe T Janica</i> Signature</p> <p>Joe T Janica Printed Name</p> <p>Agent Title</p> <p>01/23/01 Date</p>		
	<p><b>SURVEYOR CERTIFICATION</b></p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</p> <p>NOVEMBER 16, 2000 Date Surveyed</p> <p>AWB</p> <p>Signature &amp; Seal of Professional Surveyor <i>Ronald G. Edson</i> 12/01/00 00-11-1429</p> <p>Certificate No. RONALD G. EDSON 3239 GARY EDSON 12641</p>		
	<p>Professional Surveyor</p>		
	<p>Professional Surveyor</p>		

# VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 35 TWP. 23-S RGE. 29-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 660' FSL & 660' FEL

ELEVATION 3092

OPERATOR KUKUI OPERATING COMPANY

LEASE GOODNIGHT "35" FEDERAL

JOHN WEST SURVEYING  
 HOBBS, NEW MEXICO  
 (505) 393-3117

# LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL:  
REMUDA BASIN NM- 10'

SEC. 35 TWP. 23-S RGE. 29-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 660' FSL & 660' FEL

ELEVATION 3092

OPERATOR KUKUI OPERATING COMPANY

LEASE GOODNIGHT "35" FEDERAL

U.S.G.S. TOPOGRAPHIC MAP

REMUDA BASIN, NM

JOHN WEST SURVEYING  
HOBBS, NEW MEXICO  
(505) 393-3117

APPLICATION TO DRILL

KUKUI OPERATING COMPANY  
 GOODNIGHT "35" FEDERAL # 3  
 UNIT "M" SECTION 35  
 T23S-R29E EDDY CO. NM

In response to questions asked under Section II B of Bulletin NTL-6 the following information is provided for your consideration:

1. Location: 660' FWL & <sup>440'</sup> ~~660'~~ FSL SEC. 35 T23S-R29E EDDY CO. NM  
*per 8/11/44*
2. Elevation above sea level: 3092' GR.
3. Geologic name of surface formation: Quaternary deposits.
4. Drilling tools and associated equipment: Conventional rotary drilling rig using fluid as a circulating medium for solids removal.
5. Proposed drilling depth: 8500'
6. Estimated tops of geological markers:

Salado	600'	Brushy Canyon	5655'
Lamar	3185'	Lower Brushy Canyon sh	6635'
Bell Canyon	3235'	Bone Spring	6905'
Cherry Canyon	4185'	First Bone Spring Sd.	7935'
7. Possible mineral bearing formation:

Brushy Canyon	Oil
Bone Spring	Oil
8. Casing program:

<u>Hole size</u>	<u>Interval</u>	<u>OD casing</u>	<u>Weight</u>	<u>Thread</u>	<u>Collar</u>	<u>Grade</u>
24"	0-40'	20"	NA	NA	NA	Conductor
17½"	0- <sup>400'</sup> <del>350'</del>	13 3/8"	48#	8-R	ST&C	H-40
12½"	0-3100'	8 5/8"	24#	8-R	ST&C	J-55
7 7/8"	0-8500'	5½"	17#	8-R	LT&C	J-55

APPLICATION TO DRILL

KUKUI OPERATING COMPANY  
 GOODNIGHT "35" FEDERAL # 3  
 UNIT "M" SECTION 35  
 T23S-R29E EDDY CO. NM.

9. CEMENTING & SETTING DEPTH:

- 20" Conductor Set 40' of 20" conductor pipe and cement to surface with Redi-mix.
- 13 3/8" Surface Set <sup>400'</sup>350' of 13 3/8" 48# H-40 ST&C casing. Cement with 400 Sx. of Class "C" cement + 2% CaCl + 1/2# Flocele/Sx. circulate cement to surface.
- 8 5/8" Intermediate Set 3100' of 8 5/8" 24# J-55 ST&C casing. Cement with 1000 Sx. of Class "C" Halco Light + additives, tail in with 200 Sx. of Class "C" + 2% CaCl + 1/2# Flacele/Sx. circulate cement to surface.
- 5 1/2" Production Set 8500' of 5 1/2" 17# J-55 LT&C casing. Cement with 1200 Sx. Lead with 800 Sx. of Halco Light Class "C" + additives. Tail in with 400 Sx. of Class "H" cement + additives, circulate cement to surface.

10. PRESSURE CONTROL EQUIPMENT: Exhibit "E". A Series 900 3000 PSI working pressure B.O.P. consting of a double ram type preventor with a bag type annular preventor. The B.O.P. unit will be hydraulically operated. Exhibit "E-1". Choka manifold and closing unit. The B.O.P. will be nipples up on 13 3/8" casing and will be operated at least once each 24 hour period while drilling and blind rams will be operated when out of hole on trips. Full opening stabbing valve and upper kelly cock will be utilized. No abnormal pressure or temperature is expected while drilling.

11. PROPOSED MUD CIRCULATING SYSTEM:

Depth	Mud Wt.	Visc.	Fluid Loss	Type Mud System
40- <sup>400'</sup> <del>350'</del>	8.4-8.9	29-35	NC	Fresh water spud mud add paper to control seepage.
350-3100'	10-10.3	29-36	NC	Brine water add paper to control seepage and Lime for pH control.
3100-5500'	8.9-9.4	29-38	NC	Cut brine adding paper to contro seepage and Line to control pH use high viscosity sweeps to clean hole
5500-8500	10-10.5	32-38	10cc or less	Brine system with Dris-pac to control water loss, Lime to control pH.

Sufficient mud materials will be kept on location at all times in order to combat lost circulation, or unexpected kicks. In order to run DST's, open hole logs, and casing the viscosity and/or water loss may have to be adjusted to meet these needs.

APPLICATION TO DRILL

KUKUI OPERATING COMPANY  
GOODNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM

12. Testing, Logging and Coring Program:
- A. Open hole logs: Run AIT, CNL, LDT, Gamma Ray, Caliper from TD to 3100'. Run Gamma Ray-Neutron from 3100' to surface.
  - B. Mud logger will be rigged up on hole at 2950'± and remain on hole to TD.
  - C. No DST's are planned at this time.
  - D. Rotary Sidewall cores may be taken at intervals selected by the Geologist.
13. Potential Hazards:
- No abnormal pressures or temperatures are expected. Hydrogen Sulfide gas may be encountered, H<sub>2</sub>S detectors will be in place to detect any presence. No lost circulation is expected to occur. All personnel will be familiar with all aspects of safe operation of equipment being used. Estimated BHP 4150 PSI, estimated BHT 175°.
14. Anticipated Starting Date and Duration of Operation:
- Road and location construction will begin after BLM approval of APD. Anticipated spud date as soon as approved. Drilling expected to take 30 days. If production casing is run an additional 30 days will be required to complete and construct surface facilities.
15. Other Facets of Operations:
- After running casing, cased hole gamma ray neutron collar logs will be run from total depth over possible pay intervals. The Bone Spring pay will be perforated and stimulated. The well will be swab tested and potentialized as an oil well.

## HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

1. All Company and Contract personnel admitted on location must be trained by a qualified H<sub>2</sub>S safety instructor to the following:
  - A. Characteristics of H<sub>2</sub>S
  - B. Physical effects and hazards
  - C. Proper use of safety equipment and life support systems.
  - D. Principle and operation of H<sub>2</sub>S detectors, warning system and briefing areas.
  - E. Evacuation procedure, routes and first aid.
  - F. Proper use of 30 minute pressure demand air pack.
2. H<sub>2</sub>S Detection and Alarm Systems
  - A. H<sub>2</sub>S detectors and audio alarm system to be located at bell nipple, end of blowie line (mud pit) and on derrick floor or doghouse.
3. Windsock and/or wind streamers
  - A. Windsock at mudpit area should be high enough to be visible.
  - B. Windsock at briefing area should be high enough to be visible.
  - C. There should be a windsock at entrance to location.
4. Condition Flags and Signs
  - A. Warning sign on access road to location.
  - B. Flags to be displayed on sign at entrance to location. Green flag, normal safe condition. Yellow flag indicates potential pressure and danger. Red flag, danger, H<sub>2</sub>S present in dangerous concentration. Only emergency personnel admitted to location.
5. Well control equipment
  - A. See exhibit "E"
6. Communication
  - A. While working under masks chalkboards will be used for communication.
  - B. Hand signals will be used where chalk board is inappropriate.
  - C. Two way radio will be used to communicate off location in case of emergency help is required. In most cases cellular telephoned will be available at most drilling foreman's trailer or living quarters.
7. Drillstem Testing
  - A. Exhausts will be watered.
  - B. Flare line will be equipped with an electric ignitor or a propane pilot light in case gas reaches the surface.
  - C. If location is near any dwelling a closed D.S.T. will be performed.

## HYDROGEN SULFIDE DRILLING OPERATIONS PLAN

8. Drilling contractor supervisor will be required to be familiar with the effects  $H_2S$  has on tubular goods and other mechanical equipment.
9. If  $H_2S$  is encountered, mud system will be altered if necessary to maintain control of formation. A mud gas separator will be brought into service along with  $H_2S$  scavengers if necessary.

KUKUI OPERATING COMPANY  
MIDNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM

1. EXISTING ROADS: Area maps, Exhibit "B" is a reproduction of Lea Co. General Highway Map. Exhibit "C" is a reproduction of a USGS Topographic Map, showing existing roads and proposed roads. All existing roads will be maintained in a condition equal to or better than current conditions. Any new roads will be constructed to BLM specifications.
  - A. Exhibit "A" shows the proposed well site as staked.
  - B. From Loving New Mexico take State Road 31 East to State Hi-way 128 turn right (East) go 12.5 miles to CR 787 (Twin Wells Road) go 9.8 miles to junction with CR 746 (McDonald Road) turn Right onto McDonald Road go 5 miles to CR 746A turn Right go approximately 4.5 miles turn turn Left at second windmill go 1.8 miles cross Cattle Guard bear Right go 1.25 miles bear Right go .6 miles turn Left (West) go .25 miles to location
  - C. Lay flowlines along road R-O-W, to Gas sales lines in this area. See Exhibit "F" for route of flowlines.
2. PLANNED ACCESS ROADS: Approximately 1500' of new road will be constructed.
  - A. the access road will be crowned and ditched to a 12'00" wide travel surface with a 40' right-of-way.
  - B. Gradient on all roads will be less tha 5.00%.
  - C. Construct turnouts as necessary.
  - D. If needed, road will be surfaced with a minimum of 4" of caliche. This material will be obtained from a local source.
  - E. Centerline for the new access road has been flagged. Earthwork will be as required by field conditions.
  - F. Culverts in the access road will not be used. The road will be constructed to utilize low water crossings for drainage as required by the Lopography.
3. LOCATION OF EXISTING WELLS IN A ONE-MILE RADIUS EXHIBIT "A-1"
  - A. Water wells - None known
  - B. Disposal wells - None known
  - C. Drilling wells - None known
  - D. Producing wells - As shown on Exhibit "A-1"
  - E. Abandoned wells - As shown on Exhibit "A-1"

## SURFACE USE PLAN

KUKUI OPERATING COMPANY  
GOODNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM

4. If, on completion this well is a producer Kukui Operating Company will furnish maps and/or plats showing on site facilities or off site facilities if needed. This will be accompanied with a sundry notice.
5. LOCATION AND TYPE OF WATER SUPPLY:

Water will be purchased locally from a commercial source and trucked over the access roads or piped in flexible lines laid on top of the ground.
6. SOURCE OF CONSTRUCTION MATERIAL:

If possible construction will be obtained from the excavation of drill site, if additional material is needed it will be purchased from a local source and transported over the access route as shown on Exhibit "C".
7. METHODS OF HANDLING WASTE MATERIAL:
  - A. Drill cuttings will be disposed of in the reserve pit.
  - B. All trash, junk and other waste material will be contained in trash cages or bins to prevent scattering. When the job is completed all contents will be removed and disposed of in a approved sanitary land fill.
  - C. Salts remaining after completion of well will be picked up by supplier including broken sacks.
  - D. Sewage from living quarters will drain into holes with a minium depth of 10'. These holes will be covered during drilling and will be back filled upon completion. A Porta-John will be provided for the rig crews. This equipment will be properly maintained during the drilling operations and removed upon completion of the well.
  - E. Remaining drilling fluids will be allowed to evaporate in the reserve pit until the pit is dry enough for breaking out. In the event that drilling fluids do not evaporate in a reasonable time they will be hauled off by transports and be disposed of at a state approved disposal facility. Later pits will be broken out to speed drying. Water produced during testing will be put in reserve pits. Any oil or condensate produced will be stored in test tanks until sold and hauled from the site.
8. ANCILLARY FACILITIES:
  - A. No camps or airstrips to be constructed.

KUKUI OPERATING COMPANY  
GOODNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM

9. WELL SITE LAYOUT

- A. Exhibit "D" shows the proposed well site layout.
- B. This exhibit indicated proposed location of reserve and sump pits and living facilities.
- C. Mud pits in the active circulating system will be steel pits & the reserve pit is proposed to be unlined unless subsurface condition encountered during pit construction indicate that lining is needed for lateral containment of fluids.
- D. If needed, the reserve pit is to be lined with polyethelene. The pit liner will be 6 mils thick. Pit liner will extend a minimum 2'00" over the reserve pits dikes where the liner will be anchored down.
- E. The reserve pit will be fenced on three sides with four strands of barbed wire during drilling and completion phases. The fourth side will be fenced after all drilling operations have ceased. If the well is a producer, the reserve pit fence will be torn down. The reserve pit and those areas of the location not essential to production facilities will be reclaimed and seeded per BLM requirements.

10. PLANS FOR RESTORATION OF SURFACE

Rehabilitation of the location and reserve pit will start in a timely manner after all drilling operations cease. The type of reclamation will depend on whether the well is a producer or a dry hole.

However, in either event, the reserve pit will be allowed to dry properly, and fluid removed and disposed of in accordance with Article 7.B as previously noted. The pit area will then be leveled and contoured to conform to the original and surrounding area. Drainage systems, if any, will be reshaped to the original configuration with provisions made to alleviate erosion. These may need to be modified in certain circumstances to prevent inundation of the location's pad and surface facilities. After the area has been shaped and contoured, topsoil from the spoil pile will be placed over the disturbed area to the extent possible. Revegetation procedures will comply with BLM standards.

If the well is a dry hole, the pad and road area will be contoured to match the existing terrain. Topsoil will be spread to the extent possible. Revegetation will comply with BLM standards.

Should the well be a producer, the previously noted procedures will apply to those areas which are not required for production facilities.

KUKUI OPERATING COMPANY  
GOODNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM

11. OTHER INFORMATION:

- A. Topography consists of small sand dunes and playa salt lakes with a slight dip to the East. Vegetation consists of native grasses and mesquite bushes.
- B. Surface is owned by the US Department of Interior and is administered by The Bureau of Land Management. The surface is used for livestock grazing and oil and gas production.
- C. An archaeological survey will be conducted and the results will be filed with the BLM office in Carlsbad Field Office.
- D. There are no dwellings within 3 miles of this location.

12. OPERATORS REPRESENTATIVE:

Before construction:

TIERRA EXPLORATION INC.  
P.O. BOX 2188  
HOBBS, NEW MEXICO 88241  
OFFICE PHONE 505-391-8503  
JOE T. JANICA

During and after construction:

KUKUI OPERATING COMPANY  
601 VESTAVIA PARKWAY SUITE 240  
VESTAVIA, ALABAMA 35216  
OFFICE PHONE 205-823-2977  
LARRY STRIDER

13. CERTIFICATION: - I hereby certify that I, or persons under my direct supervision have inspected the proposed drill site and access route; that I am familiar with the conditions which currently exist; that the statements made in this plan are to the best of my knowledge, true and correct; and that the work associated with the operations proposed herein will be performed by Kukui Operating Company it's contractors/subcontractors is in the conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provision of U.S.C. 1001 for the filing of a false statement.

NAME :

DATE :

TITLE :

Joe T Janica  
01/23/01  
Agent

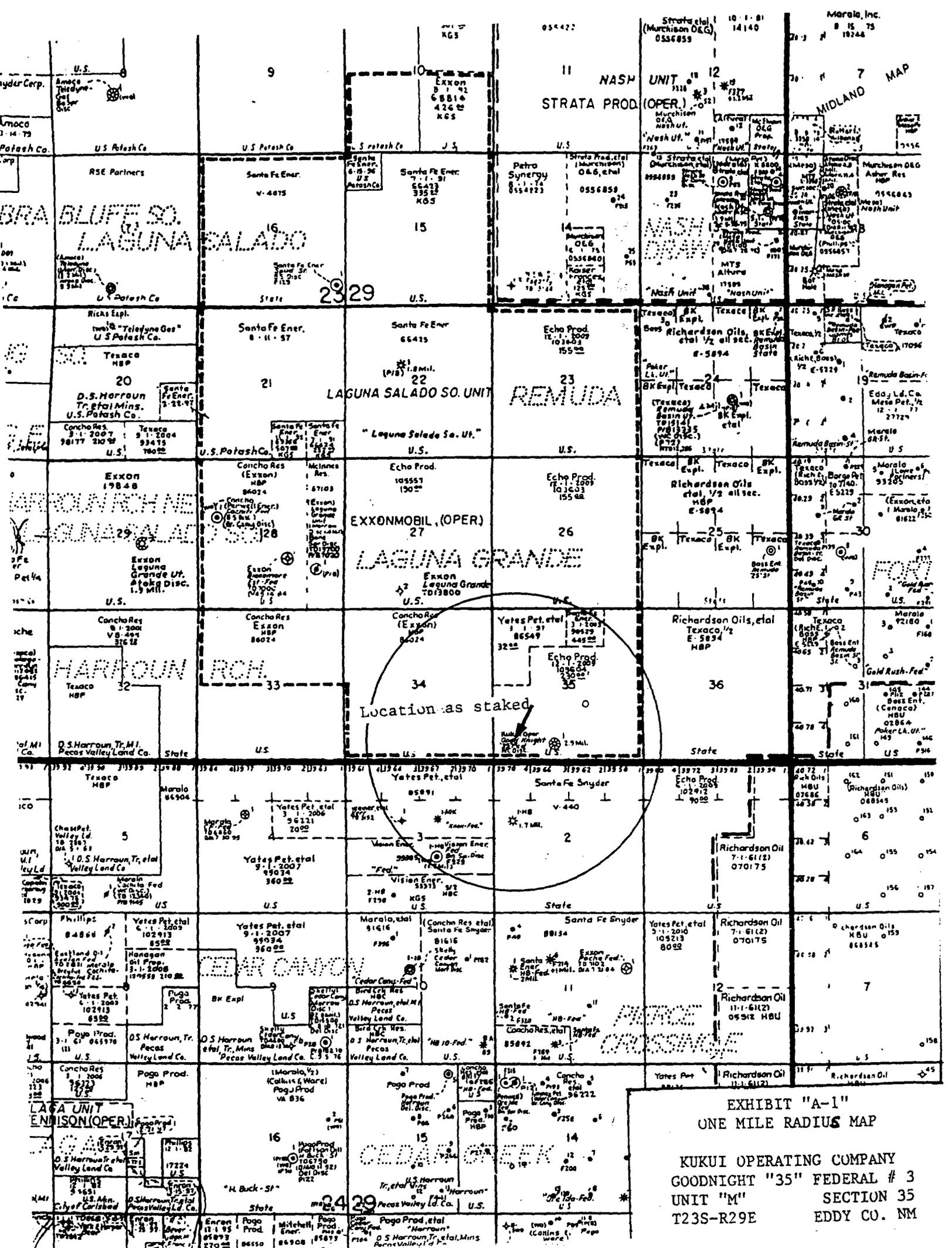


EXHIBIT "A-1"  
ONE MILE RADIUS MAP

KUKUI OPERATING COMPANY  
GOODNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM

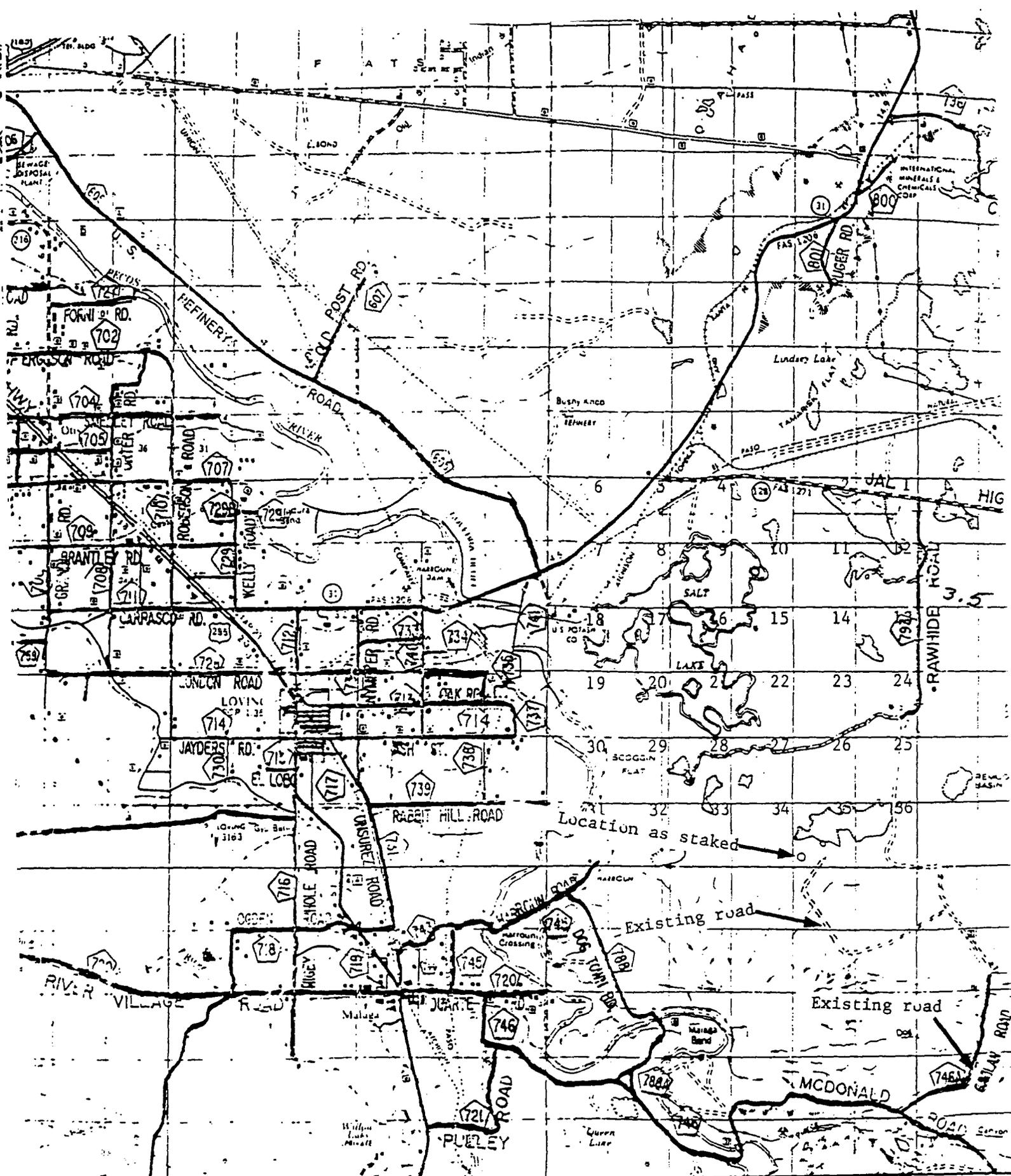


EXHIBIT "B"  
 LOCATION & ACCESS ROAD MAP

KUKUI OPERATING COMPANY  
 GOODNIGHT "35" FEDERAL # 3  
 UNIT "M" SECTION 35  
 T23S-R29E EDDY CO. NM

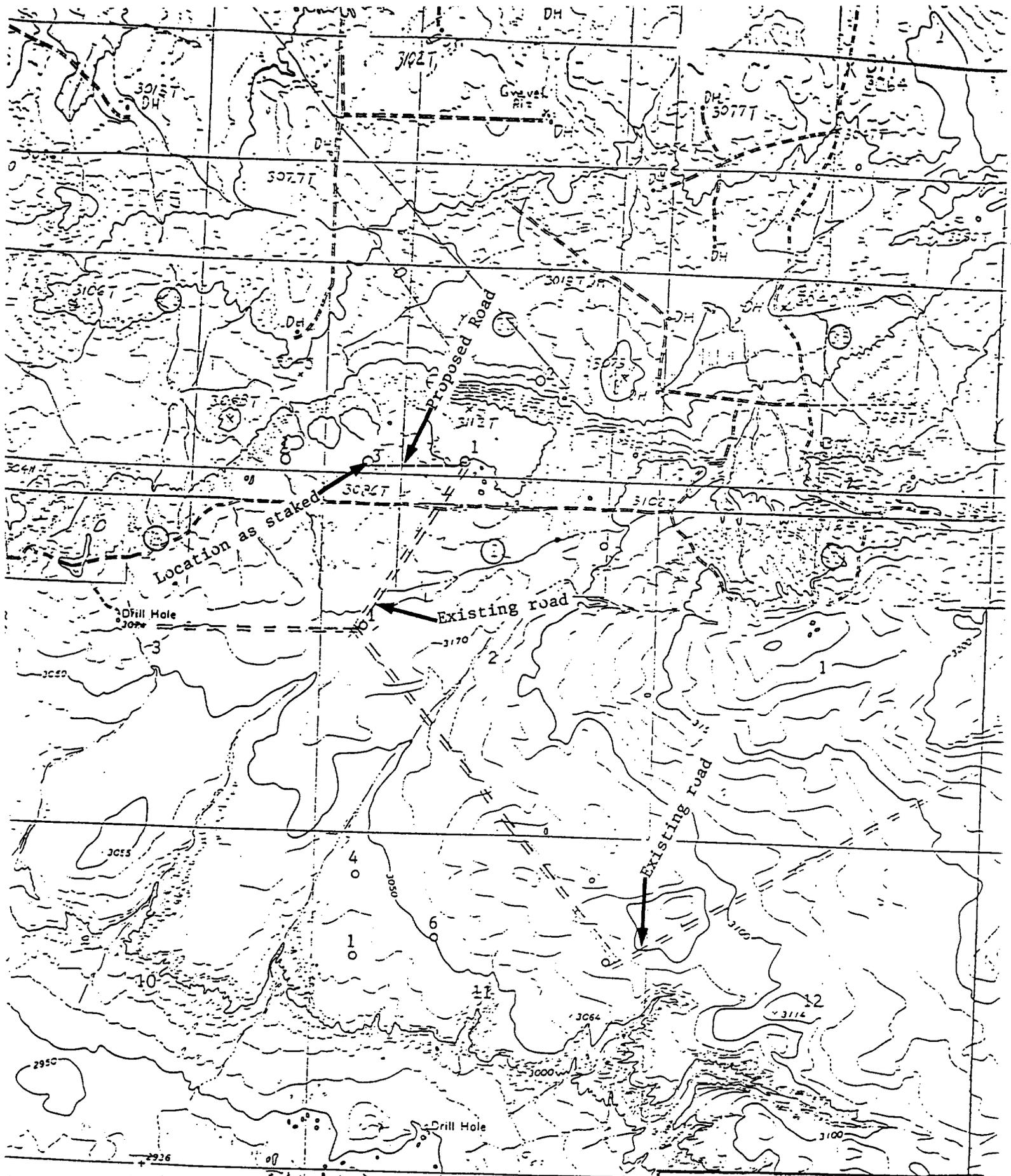
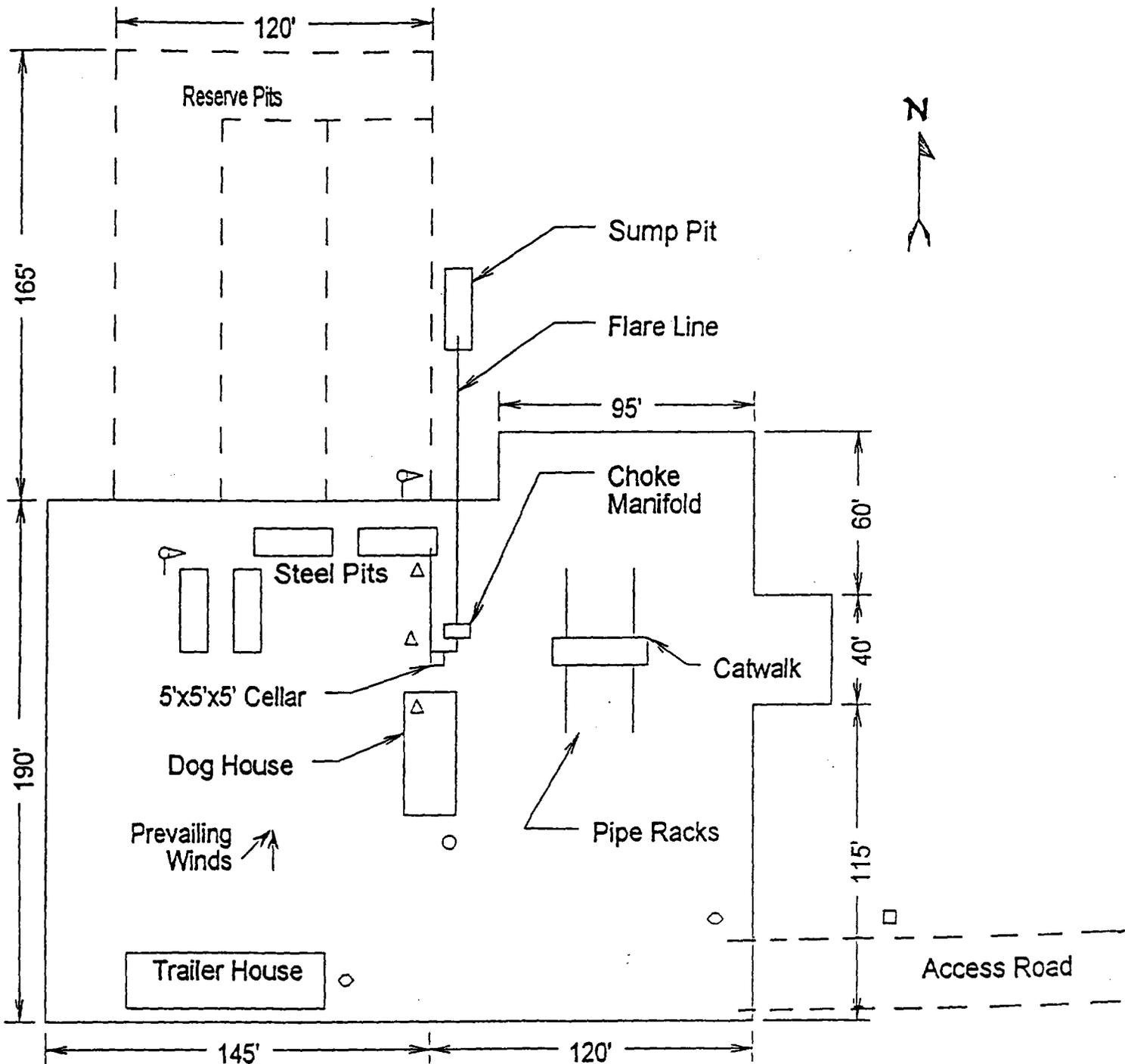


EXHIBIT "C"  
 TOPOGRAPHIC MAP SHOWING  
 ROADS & DIRECTIONS TO

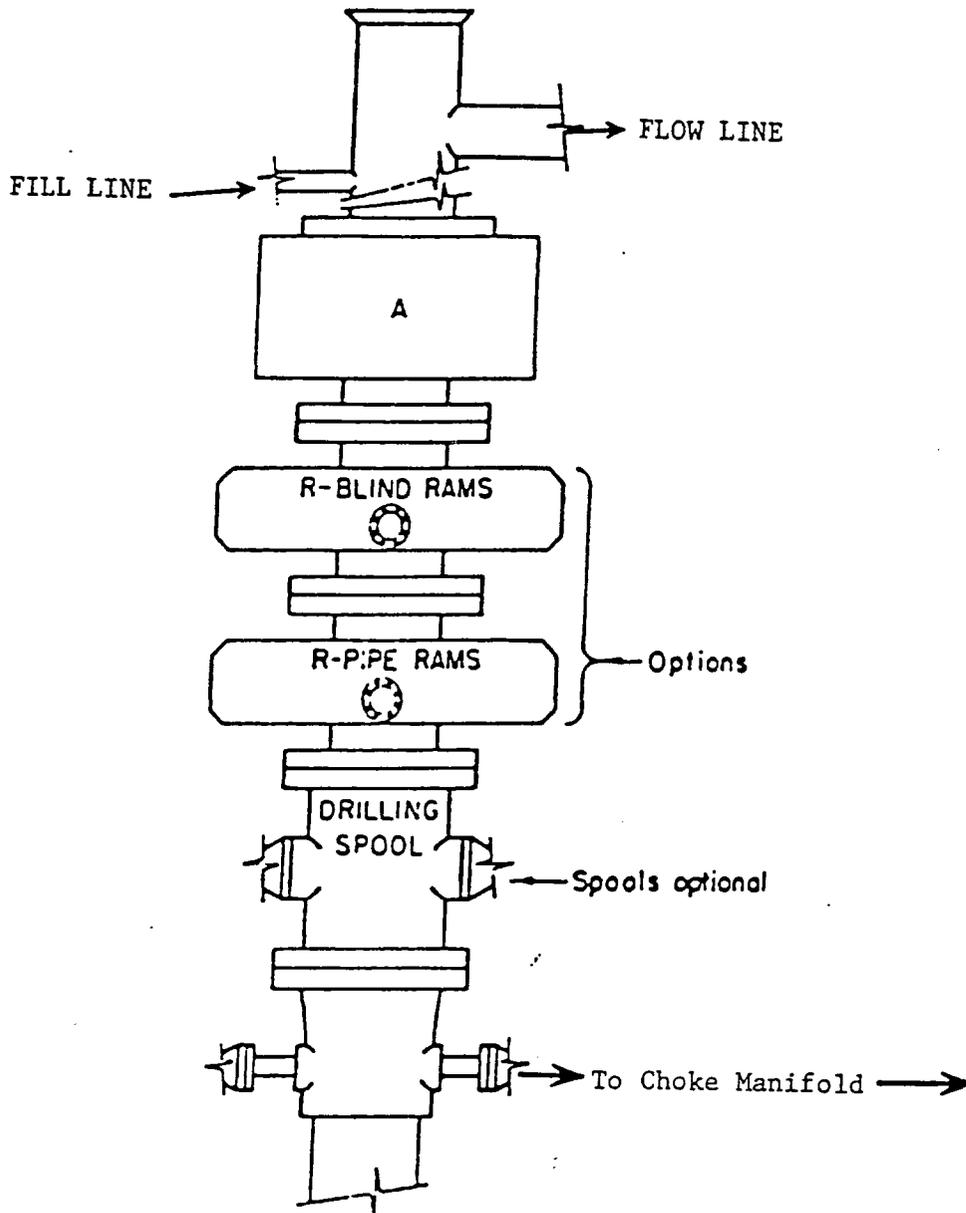
KUKUI OPERATING COMPANY  
 GOODNIGHT "35" FEDERAL # 3  
 UNIT "M" SECTION 35  
 T23S-R20E



- ⚙ Wind Direction Indicators  
(wind sock or streamers)
- ⚠ H2S Monitors  
(alarms at bell nipple and shale shaker)
- Briefing Areas
- Remote BOP Closing Unit
- Sign and Condition Flags

EXHIBIT "D"  
RIG LAY OUT PLAT

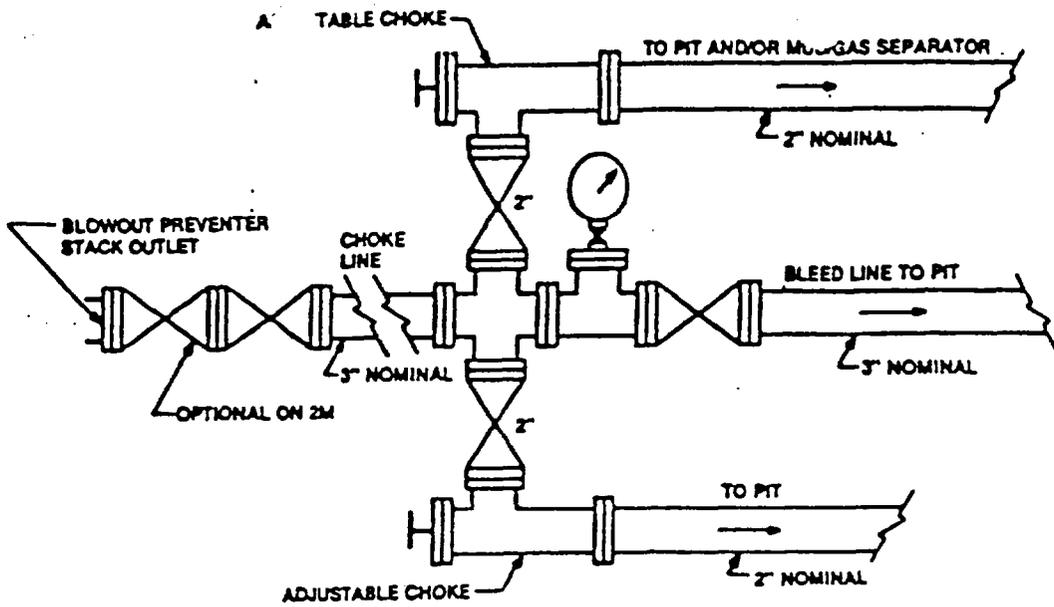
KUKUI OPERATING COMPANY  
GOODNIGHT "35" FEDERAL # 3  
UNIT "M" SECTION 35  
T23S-R29E EDDY CO. NM



**ARRANGEMENT SRRA**

900 Series  
3000 PSI WP

EXHIBIT "E"  
 SKETCH OF B.O.P. TO BE USED ON  
 KUKUI OPERATING COMPANY  
 GOODNIGHT "35" FEDERAL # 3  
 UNIT "M" SECTION 35  
 T23S-R29E EDDY CO. NM



Typical choke manifold assembly for 3M WP system

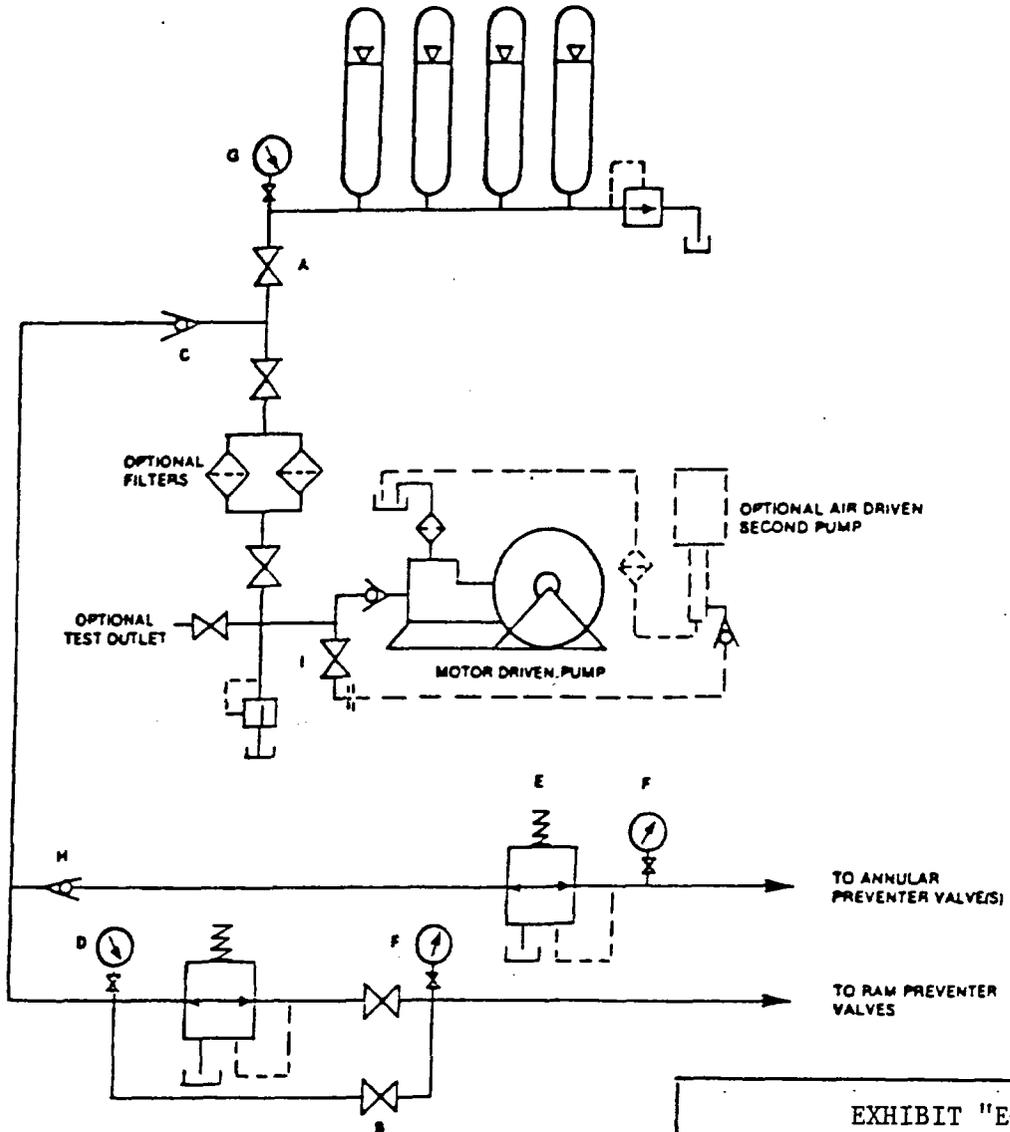


EXHIBIT "E-1"  
CHOKER MANIFOLD & CLOSING UNIT

KUKUI OPERATING COMPANY  
 GOODNIGHT "35" FEDERAL # 3  
 UNIT "M" SECTION 35  
 T23S-R29E EDDY CO. NM



# STATEMENT ACCEPTING RESPONSIBILITY FOR OPERATIONS

KUKUI Operating Company  
601 Vestavia Pkwy. St. 240  
Vestavia, Alabama 35216

The undersigned accepts all applicable terms, conditions, stipulations,  
and restrictions concerning operations conducted on the leased land  
or portion thereof, as described below:

Lease No: NMNM - 103604

Legal Description of Land: S 1/2 of Section 35 - T23S - R29E  
Eddy County, New Mexico

Formation (s) (if applicable):

Bond Coverage: Statewide

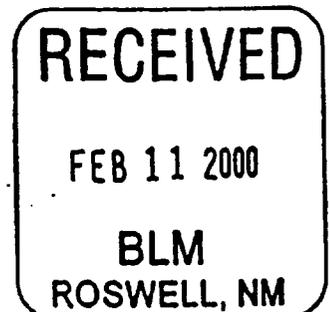
BLM Bond File No: NM 2446

Authorized Signature:



Title: District Operations Mgr.

Date: 2/8/2000



VEL  
101  
-11

# SPECIAL DRILLING STIPULATIONS

## THE FOLLOWING DATA IS REQUIRED ON THE WELL SIGN

Operator's Name Kukui Operating Company Well Name & No. 3-Goodnight 35 Federal  
Location 440 F S L & 660 F W L Sec. 35, T.23S, R.29E  
Lease No. NM-103604 County Eddy State New Mexico

The Special stipulations check marked below are applicable to the above described well and approval of this application to drill is conditioned upon compliance with such stipulations in addition to the General Requirements. The permittee should be familiar with the General Requirements, a copy of which is available from a Bureau of Land Management office. EACH PERMITTEE HAS THE RIGHT OF ADMINISTRATIVE APPEAL TO THESE STIPULATIONS PURSUANT TO TITLE 43 CFR 3165.3 AND 3165.4.

This permit is valid for a period of one year from the date of approval or until lease expiration or termination whichever is shorter.

### I. SPECIAL ENVIRONMENT REQUIREMENTS

- Lesser Prairie Chicken (stips attached)       Floodplain (stips attached)  
 San Simon Swale (stips attached)       Other *See attached Archaeological Stipulations*

### II. ON LEASE - SURFACE REQUIREMENTS PRIOR TO DRILLING

The BLM will monitor construction of this drill site. Notify the  Carlsbad Field Office at (505) 234-5972.  Hobbs Office (505) 393-3612, at least 3 working days prior to commencing construction.

Roads and the drill pad for this well must be surfaced with 6 inches of compacted caliche.

All topsoil and vegetation encountered during the construction of the drill site area will be stockpiled and made available for resurfacing of the disturbed area after completion of the drilling operation. Topsoil on the subject location is approximately \_\_\_ inches in depth. Approximately \_\_\_ cubic yards of topsoil material will be stockpiled for reclamation.

Other.

### III. WELL COMPLETION REQUIREMENTS

A communitization Agreement covering the acreage dedicated to the well must be filed for approval with the BLM. The effective date of the agreement must be prior to any sales.

Surface Restoration: If the well is a producer, the reserve pit(s) will be backfilled when dry, and cut-and-fill slopes will be reduced to a slope of 3:1 or less. All areas of the pad not necessary for production must be re-contoured to resemble the original contours of the surrounding terrain, and topsoil must be re-distributed and re-seeded with a drill equipped with a depth indicator (set at a depth of 1/2 inch) with the following seed mixture, in pounds of Pure Live Seed (PLS), per acre.

A. Seed Mixture 1 (Loamy Sites)

Side Oats Grama (*Bouteloua curtipendula*) 5.0  
Sand Dropseed (*Sporobolus cryptandrus*) 1.0

B. Seed Mixture 2 (Sandy Sites)

Sand Dropseed (*Sporobolus cryptandrus*) 1.0  
Sand Lovegrass (*Eragrostis trichodes*) 1.0  
Plains Bristlegrass (*Setaria magrostachya*) 2.0

C. Seed Mixture 3 (Shallow Sites)

Sideoats Grama (*Boute curtipendula*) 1.0

D. Seed Mixture 4 (Gypsum Sites)

Alkali Sacaton (*Sporobolus airoides*) 1.0  
Four-Wing Saltbush (*Atriplex canescens*) 5.0

Seeding should be done either late in the fall (September 15 - November 15, before freeze up, or early as possible the following spring to take advantage of available ground moisture.

Other.

### RESERVE PIT CONSTRUCTION STANDARDS

The reserve pit shall be constructed entirely in cut material and lined with 6 mil plastic.

Mineral material extracted during construction of the reserve pit may be used for development of the pad and access road as needed. Removal of any additional material on location must be purchased from BLM.

Reclamation: Reclamation of this type of deep pit will consist of pushing the pit walls into the pit when sufficiently dry to support track equipment. The pit liner is NOT TO BE RUPTURED to facilitate drying; a ten month period after completion of the well is allowed for drying of the pit contents.

The pit area must be contoured to the natural terrain with all contaminated drilling mud buried with at least 3 feet of clean soil. The reclaimed area will then be seeded as specified in this permit.

### OPTIONAL PIT CONSTRUCTION STANDARDS

The reserve pit may be constructed in predominantly fill material if:

- (1) Lined as specified above and
- (2) A borrow/caliche/gravel pit can be constructed immediately adjacent to the reserve pit and it capable of containing all reserve pit contents. The mineral material removed in the process can be used for pad and access road construction. However, a material sales contract must be purchased from the BLM prior to removal of the material.

Reclamation of the reserve pit consists of bulldozing all reserve pit contents and contaminants into the borrow pit and covering with a minimum of 3 feet of clean soil material. The entire area must be recontoured, all trash removed, and reseeded as specified in this permit.

### CULTURAL

Whether or not an archaeological survey has been completed and notwithstanding that operations are being conducted as approved, the lessee/operator/grantee shall notify the BLM immediately if previously unidentified cultural resources are observed during surface disturbing operations. From the time of the observation, the lessee/operator/grantee shall avoid operations that will result in disturbance to these cultural resources until directed to proceed by BLM.

### TRASH PIT STIPS

All trash, junk, and other waste material shall be contained in trash cages or bins to prevent scattering and will be removed and deposited in an approved sanitary landfill. Burial on site is not permitted.

CULTURAL RESOURCES STIPULATIONS  
CARLSBAD FIELD OFFICE

PROJECT Kukui Goodnight 35#3 + access Report No. 01-NM-080-701.1

SITE PROTECTION AND EMPLOYEE EDUCATION: All employees of the project will be informed that cultural sites are to be avoided by all personnel, personal vehicles and company equipment. They will be also be notified that it is illegal to collect, damage or disturb cultural resources.

YES A. Monitoring is required.

YES 1. A copy of these stipulations will be supplied to the archaeological monitor at least two (2) working days prior to the start of construction activities.

YES 2. No construction activities, including vegetation removal, may begin before the arrival of the archaeological monitor.

YES 3. The archaeological monitor will:

NO a. Ensure that the site protection barrier is located as indicated on the attached map(s). <sup>initial</sup>

YES b. Observe all surface disturbing activities ~~\_\_\_\_\_~~

YES during access road and well pad construction. ~~(\_\_\_\_\_)~~

NO c. Other: \_\_\_\_\_

YES d. Submit a report of the monitoring activities within thirty (30) days of completion of monitoring unless other arrangements are made with the BLM. These stipulations must be attached to the report.

NO B. The grantee must select one of the following alternatives:

NO 1. Controlled test excavations to determine if cultural resources are present;

NO 2. Reduction of the project size to avoid all significant cultural materials;

NO 3. Relocation of the project;

NO 4. Preparation and implementation of a data recovery plan for cultural sites(s)

NO C. SITE BARRIER/FENCING:

NO 1. A temporary site protection barrier(s) will be erected prior to \_\_\_\_\_ construction. The barrier(s) will, at a minimum, consist of upright wooden survey lath spaced no more than ten (10) feet apart and marked with blue ribbon flagging or blue paint. There will be no construction activities or vehicular traffic past the barrier(s). The barrier(s) will remain in place through reclamation and reseeding.

NO 2. A permanent fence(s) will be erected prior to \_\_\_\_\_ construction. There will be no construction activities or vehicle traffic past the fence(s).

NO 3. The barrier(s)/fence(s) will be placed as indicated on the attached map(s).

NO D. CONSTRUCTION ZONES: There will be a no construction zone \_\_\_\_\_

NO E. OTHER:

## CONDITIONS OF APPROVAL - DRILLING

Operator's Name: KUKUI Operating Company Well No. 3 - Goodnight 35 Federal

Location: <sup>Hwy</sup> 660' FSL & 660' FWL sec. 35, T. 23 S., R. 29 E.

Lease: <sup>Per BWH</sup> NM-103604

.....

### I. DRILLING OPERATIONS REQUIREMENTS:

1. The Bureau of Land Management (BLM) is to be notified at (505) 234-5972 in sufficient time for a representative to witness:

A. Spudding

B. Cementing casing: 13-3/8 inch 8-5/8 inch 5-1/2 inch

2. Unless the production casing has been run and cemented or the well has been properly plugged, the drilling rig shall not be removed from over the hole without prior approval of this office.

3. Include the API No. assigned to well by NMOCD on the subsequent report of setting the first casing string.

4. A Hydrogen Sulfide Contingency Plan should be activated prior to drilling in the Delaware formation. A copy of the plan shall be posted at the drilling site.

5. Gamma-Ray/Neutron logs shall be run from the base of the Salado formation to the surface; cable speed not to exceed 30 feet per minute.

### II. CASING:

1. 13-3/8 inch surface casing should be set at approximately 400 feet in the Rustler Anhydrite above the top of the Salt, below usable water and circulate cement to the surface. If cement does not circulate to the surface, this BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

2. Minimum required fill of cement behind the 8-5/8 inch salt protection casing string is sufficient to circulate to the surface. If cement does not circulate to the surface, this BLM office shall be notified and a temperature survey or cement bond log shall be run to verify the top of the cement. Remedial cementing shall be completed prior to drilling out that string.

3. Minimum required fill of cement behind the 5-1/2 inch production casing is sufficient to circulate to the surface.

4. Whenever a casing string is cemented in the R-111-P Potash Area, cement shall be allowed to stand a minimum of twelve (12) hours under pressure and a total of twenty-four (24) hours before drilling the plug or initiating tests.

### III. PRESSURE CONTROL:

1. Before drilling below the 13-3/8 inch surface casing, the blowout preventer assembly shall consist of a minimum of One Annular Preventer, Two Ram-Type Preventers, and a Kelly Cock/Stabbing Valve.

2. Before drilling below the 13-3/8 inch surface casing, minimum working pressure of the blowout preventer and related equipment (BOPE) shall be 3000 psi.

3. After setting the 8-5/8 inch salt protection casing string and before drilling into the Delaware formation, the BOPE shall be tested as described in Onshore Order No. 2. Any equipment failing to test satisfactorily shall be repaired or replaced.

A. The results of the test will be reported to the BLM Carlsbad Field Office at 620 East Greene Street, Carlsbad, New Mexico 88220-6292.

B. Testing fluid must be water or an appropriate clear liquid suitable for sub-freezing temperatures. Use of drilling mud for testing is not permitted since it can mask small leaks.

C. Testing must be done in a safe workman like manner. Hard line connections shall be required.

EXHIBIT A

BLM Serial Number: NM-103604

Company Reference: 3-Goodnight 35 Federal  
Kukui Operating Company

STANDARD STIPULATIONS FOR PERMANENT RESOURCE ROADS

The holder/grantee/permittee shall hereafter be identified as the holder in these stipulations. The Authorized Officer is the person who approves the Application for Permit to Drill (APD) and/or Right-of-Way (ROW).

GENERAL REQUIREMENTS

The holder shall minimize disturbance to existing fences and other improvements on public domain surface. The holder is required to promptly repair improvements to at least their former state. Functional use of these improvements will be maintained at all times. The holder will make a documented good-faith effort to contact the owner of any improvements prior to disturbing them. When necessary to pass through a fence line, the fence shall be braced on both sides of the passageway prior to cutting of the fence.

Holder agrees to comply with the following stipulations:

1. ROAD WIDTH AND GRADE

The road will have a driving surface of 14 feet (all roads shall have a minimum driving surface of 12 feet, unless local conditions dictate a different width). The maximum grade is 10 percent unless the box below is checked. Maximum width of surface disturbance from construction will be 30 feet.

Those segments of road where grade is in excess of 10% for more than 300 feet shall be designed by a professional engineer.

2. CROWNING AND DITCHING

Crowning with materials on site and ditching on one side of the road on the uphill side will be required. The road cross-section will conform to the cross section diagrams in Figure 1. If conditions dictate, ditching may be required for both sides of the road; if local conditions permit, a flat-bladed road may be considered (if these conditions exist, check the appropriate box below). The crown shall have a grade of approximately 2% (i.e., 1" crown on a 12' wide road).

Ditching will be required on both sides of the roadway as shown on the attached map or as staked in the field.

Flat-blading is authorized on segment(s) delineated on the attached map.

3. DRAINAGE

Drainage control shall be ensured over the entire road through the use of borrow ditches, outsloping, insloping, natural rolling topography, lead-off (turnout) ditches, culverts, and/or drainage dips.

A. All lead-off ditches shall be graded to drain water with a 1 percent minimum to 3 percent maximum ditch slope. The spacing interval for lead-off ditches shall be determined according to the following table, but may be amended depending upon existing soil types and centerline road slope (in %):

SPACING INTERVAL FOR TURNOUT DITCHES	
Percent slope	Spacing interval
0% - 4%	400' - 150'
4% - 6%	250' - 125'
6% - 8%	200' - 100'
8% - 10%	150' - 75'

A typical lead-off ditch has a minimum depth of 1 foot below and a berm 6 inches above natural ground level. The berm will be on the down-slope side of the lead-off ditch. The ditch end will tie into vegetation whenever possible.

For this road the spacing interval for lead-off ditches shall be at

- 400 foot intervals.
- \_\_\_\_\_ foot intervals.
- locations staked in the field as per spacing intervals above.
- locations delineated on the attached map.

B. Culvert pipes shall be used for cross drains where drainage dips or low water crossings are not feasible. The minimum culvert diameter must be 18 inches. Any culvert pipe installed shall be of sufficient diameter to pass the anticipated flow of water. Culvert location and required diameter are shown on the attached map (Further details can be obtained from the Roswell District Office or the appropriate Resource Area Office).

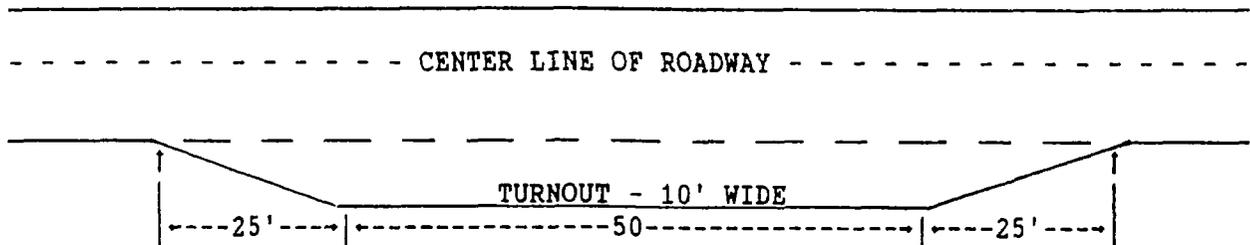
C. On road slopes exceeding 2%, drainage dips shall drain water into an adjacent lead-off ditch. Drainage dip location and spacing shall be determined by the formula:

$$\text{spacing interval} = \frac{400'}{\text{road slope in \%}} + 100'$$

Example: 4% slope: spacing interval =  $\frac{400}{4} + 100 = 200$  feet

4. TURNOUTS

Unless otherwise approved by the Authorized Officer, vehicle turnouts will be required. Turnouts will be located at 2000-foot intervals, or the turnouts will be intervisible, whichever is less. Turnouts will conform to the following diagram:



STANDARD TURNOUT - PLAN VIEW

5. SURFACING

Surfacing of the road or those portions identified on the attached map may, at the direction of the Authorized Officer, be required, if necessary, to maintain traffic within the right-of-way with caliche, gravel, or other surfacing material which shall be approved by the Authorized Officer. When surfacing is required, surfacing materials will be compacted to a minimum thickness of six inches with caliche material. The width of surfacing shall be no less than the driving surface. Prior to using any mineral materials from an existing or proposed Federal source, authorization must be obtained from the Authorized Officer.

6. CATTLEGUARDS

Where used, all cattleguard grids and foundation designs and construction shall meet the American Association of State Highway and Transportation Officials (AASHTO) Load Rating H-20, although AASHTO U-80 rated grids shall be required where heavy loads (exceeding H-20 loading), are anticipated (See BLM standard drawings for cattleguards). Cattleguard grid length shall not be less than 8 feet and width of not less than 14 feet. A wire gate (16-foot minimum width) will be provided on one side of the cattleguard unless requested otherwise by the surface user.

7. MAINTENANCE

The holder shall maintain the road in a safe, usable condition. A maintenance program shall include, but not be limited to blading, ditching, culvert installation, culvert cleaning, drainage installation, cattleguard maintenance, and surfacing.

8. PUBLIC ACCESS

Public access along this road will not be restricted by the holder without specific written approval being granted by the Authorized Officer. Gates or cattleguards on public lands will not be locked or closed to public use unless closure is specifically determined to be necessary and is authorized in writing by the Authorized Officer.

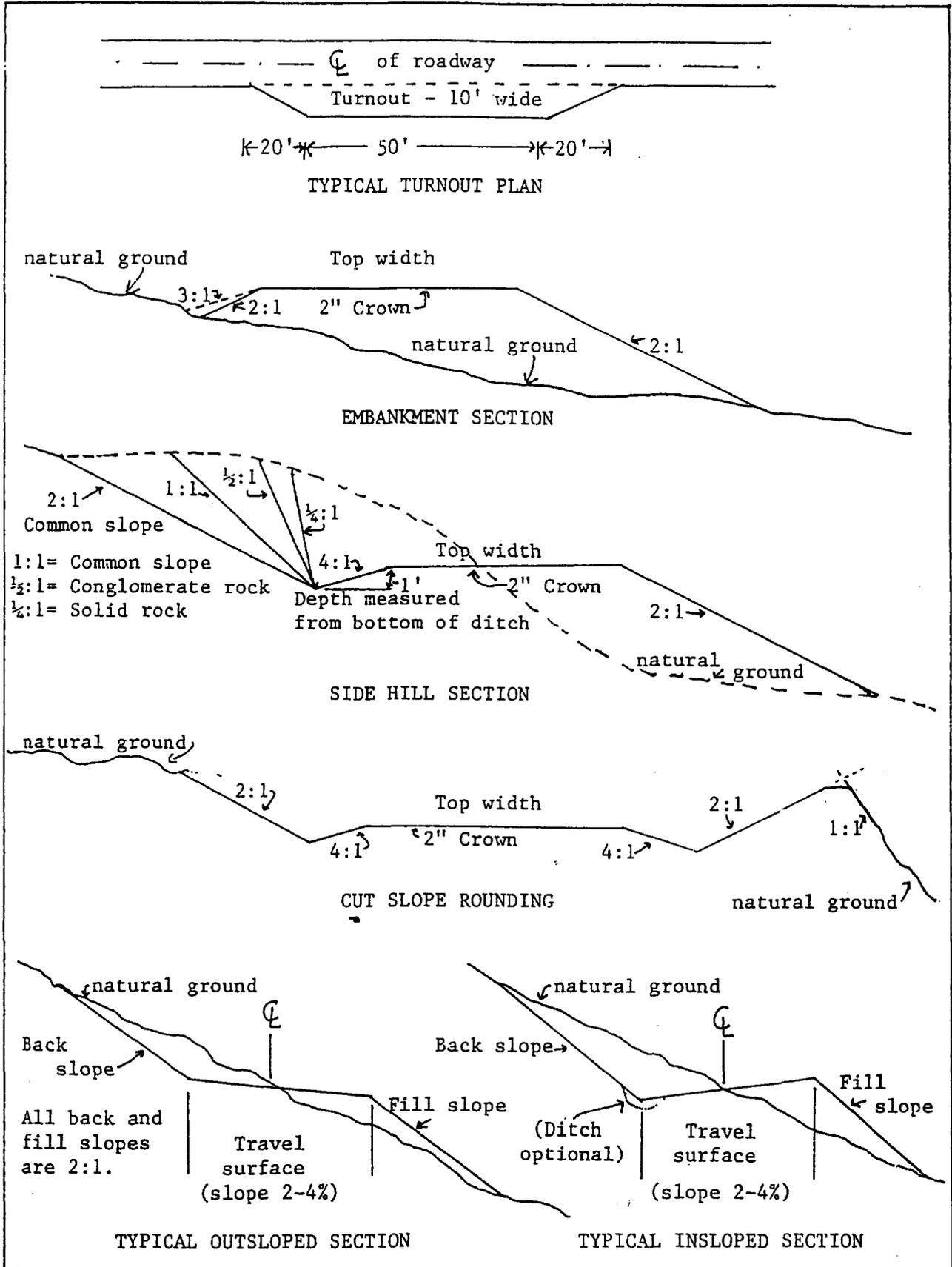
9. CULTURAL RESOURCES

Any cultural and/or paleontological resource (historic or prehistoric site or object) discovered by the holder, or any person working on the holder's behalf, on public or Federal land shall be immediately reported to the authorized officer. The holder shall suspend all operations in the immediate area of such discovery until written authorization to proceed is issued by the authorized officer. An evaluation of the discovery will be made by the authorized officer to determine appropriate actions to prevent the loss of significant cultural or scientific values. The holder will be responsible for the cost of evaluation and any decision as to the proper mitigation measures will be made by the authorized officer after consulting with the holder.

10. SPECIAL STIPULATIONS: *None.*

FIGURE 1: CROSS SECTIONS AND PLANS FOR TYPICAL ROAD CONSTRUCTION REPRESENTATIVE OF BLM RESOURCE, AND HIGHER CLASS, ROADS.

(Travel way, top width, driving surface, and travel surface are synonymous.)



CMD :  
OG5SECT

ONGARD  
INQUIRE LAND BY SECTION

09/11/01 15:00:24  
OGOMES -TPOF  
PAGE NO: 1

Sec : 35 Twp : 23S Rng : 29E Section Type : NORMAL

D 40.00  Federal owned R	C 40.00  Federal owned R	B 40.00  Federal owned R	A 40.00  Federal owned R
E 40.00  Federal owned R	F 40.00  Federal owned R	G 40.00  Federal owned R	H 40.00  Federal owned R

PF01 HELP    PF02            PF03 EXIT    PF04 GoTo    PF05            PF06  
PF07 BKWD   PF08 FWD      PF09 PRINT   PF10 SDIV     PF11            PF12

CMD :  
OG5SECT

ONGARD  
INQUIRE LAND BY SECTION

09/11/01 15:00:30  
OGOMES -TPOF  
PAGE NO: 2

Sec : 35 Twp : 23S Rng : 29E Section Type : NORMAL

L 40.00  Federal owned R	K 40.00  Federal owned R	J 40.00  Federal owned R	I 40.00  Federal owned R
M 40.00  Federal owned R A	N 40.00  Federal owned R A	O 40.00  Federal owned R	P 40.00  Federal owned R

PF01 HELP    PF02            PF03 EXIT    PF04 GoTo    PF05            PF06  
PF07 BKWD   PF08 FWD      PF09 PRINT   PF10 SDIV     PF11            PF12

CMD : ONGARD 09/11/01 15:00:53  
OG6C101 C101-APPLICATION FOR PERMIT TO DRILL OGOMES -TPOF

OGRID Idn : 149678 API Well No: 30 15 31865 APD Status(A/C/P): A  
Opr Name, Addr: KUKUI OPERATING COMPANY Aprvl/Cncl Date : 07-23-2001  
26 COUNTY RD 2965  
AZTEC,NM 87410

Prop Idn: 25703 GOODNIGHT 35 FEDERAL Well No: 3

	U/L	Sec	Township	Range	Lot Idn	North/South	East/West
	---	---	-----	-----	-----	-----	-----
Surface Locn	: M	35	23S	29E		FTG 440 F S	FTG 660 F W
OCD U/L	: M		API	County	: 15		

Work typ(N/E/D/P/A) : N Well typ(O/G/M/I/S/W/C): G Cable/Rotary (C/R) : F  
Lease typ(F/S/P/N/J/U/I): F Ground Level Elevation : 3092

State Lease No: NM 103604 Multiple Comp (S/M/C) : S  
Prpsd Depth : 14300 Prpsd Frmtn : CEDAR CANYON MORROW

E0009: Enter data to modify record

PF01 HELP	PF02	PF03 EXIT	PF04 GoTo	PF05	PF06 CONFIRM
PF07	PF08	PF09 PRINT	PF10 C102	PF11 HISTORY	PF12

CMD :  
OG6IPRD

ONGARD  
INQUIRE PRODUCTION BY POOL/WELL

09/11/01 15:01:45  
OGOMES -TPOF  
Page No: 1

OGRID Identifier : 149678 KUKUI OPERATING COMPANY  
Pool Identifier : 97050 LAGUNA GRANDE; WOLFCAMP (GAS)  
API Well No : 30 15 31096 Report Period - From : 01 1998 To : 06 2001

API Well No	Property Name	Prodn. MM/YY	Days Prod	Production Volumes			Well Stat
				Gas	Oil	Water	
30 15 31096	GOODNIGHT 35 FEDERAL	08 00	21	56212	2040	23	F
30 15 31096	GOODNIGHT 35 FEDERAL	09 00	30	45122	591	27	F
30 15 31096	GOODNIGHT 35 FEDERAL	10 00	16	7389	56		F
30 15 31096	GOODNIGHT 35 FEDERAL	11 00	1	50		13	A
30 15 31096	GOODNIGHT 35 FEDERAL	12 00					A

Reporting Period Total (Gas, Oil) : 108773 2687 63

E0001: The key depressed is invalid for this screen

PF01 HELP PF02 PF03 EXIT PF04 GoTo PF05 PF06 CONFIRM  
PF07 BKWD PF08 FWD PF09 PF10 NXTPOOL PF11 NXTOGD PF12



# HOLLAND & HART LLP AND CAMPBELL & CARR

ATTORNEYS AT LAW



PARTNERING LAW AND TECHNOLOGY TO MEET YOUR NEEDS

110 NORTH GUADALUPE, SUITE 1,

P.O. BOX 2208, SANTA FE, NEW MEXICO 87501-6525

Friday, November 02, 2001

To: Michael Stogner  
Oil Conservation Division

Fax: 476-3462  
Phone: 476-3465

From: William F. Carr, Esq.

Fax: 505-983-6043  
Phone: 505-988-4421

### Message:

Attached is a copy of the signed letter with Tom Kellahin for your use. Thank you.

No Confirmation Copy

Number of pages including cover sheet: 3

Note: If this fax is illegible or incomplete please call us. This fax may contain confidential information protected by the attorney-client privilege. If you are not the named recipient, you may not use, distribute or otherwise disclose this information without our consent. Instead, please call (505) 988-4421; we will arrange for its destruction or return.

Attorney Number: 5101	Client/Matter Number: 45794.0001	Time Deadline: _____
Operator Initials: KEH	Date Transmitted: 11.2.2001	Time: _____

**HOLLAND & HART LLP**  
AND  
**CAMPBELL & CARR**  
ATTORNEYS AT LAW

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SALT LAKE CITY • SANTA FE  
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SUITE 1  
110 NORTH GUADALUPE  
SANTA FE, NEW MEXICO 87501-6525  
MAILING ADDRESS  
P.O. BOX 2208  
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421  
FACSIMILE (505) 983-6043  
www.hollandhart.com

October 17, 2001

**HAND DELIVERED**

W. Thomas Kellahin, Esq.  
Kellahin and Kellahin  
El Patio Building  
117 North Guadalupe  
Santa Fe, New Mexico 87504

Re: **Oil Conservation Division Case No. 12736**: Application of KUKUI  
Operating Company for an unorthodox gas well location, Eddy County,  
New Mexico.

Dear Mr. Kellahin:

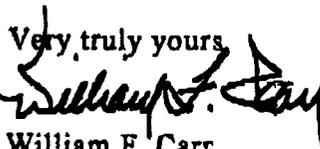
This letter sets forth the agreement reached between KUKUI Operating Company, Devon SFS Operating Company and Kaiser-Francis Oil Company to resolve the dispute concerning the proposed unorthodox gas well location for the KUKUI Operating Company Goodnight "35" Federal Well No. 3 at a point 440 feet from the South line and 660 feet from the West line of Section 35, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico.

1. A 33% production penalty shall be imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Oil Conservation Division. Devon SFS Operating Company and Kaiser-Francis Oil Company will also be given the opportunity to witness these tests.
2. The imposition of the 33% penalty would not require that the well be produced at rates less than 500MCF/D.

Letter to W. Thomas Kellahin  
October 17, 2001  
Page 2

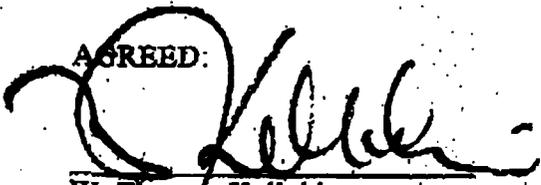
3. Devon SFS Operating Company and Kaiser-Francis Oil Company withdraw their respective objections to the proposed unorthodox gas well location.

If this letter accurately sets forth our agreement, please execute a copy on behalf of Kaiser-Francis Oil Company and Devon SFS Operating Company and return it to me for filing with the Division. I appreciate your assistance in resolving this dispute.

Very truly yours,  


William F. Carr  
Attorney for KUKUI Operating Company

AGREED:



W. Thomas Kellahin  
Attorney for Kaiser-Francis Oil Company  
and Devon SFS Operating Company.

cc: Steve C. Sandlin  
Vice President-Land  
KUKUI Operating Company



**DEVON SFS OPERATING, INC.**  
**20 North Broadway, Suite 1500**  
**Oklahoma City, OK 73102**  
**405-235-3611**  
**FAX 405-552-8113**

---

## **Facsimile Cover Sheet**

**To: Michael Stogner**  
**Company: New Mexico Oil Conservation Division**  
**Phone: 505-827-7131**  
**Fax: 505-476-3462**

**From: Ken Gray**  
**Company: Devon SFS Operating, Inc.**  
**Phone: 405-552-4633**  
**Fax: 405-552-8113**

**Date: September 11, 2001**

**Pages including this  
cover page: 2**

**Comments:**

**devon**  
**SFS OPERATING, INC.**

20 North Broadway, Suite 1500  
Oklahoma City, Oklahoma 73102-8260

Telephone: (405) 235-3611  
Fax: (405) 552-8113

September 11, 2001

VIA FACSIMILE

New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

Attention: Michael Stogner

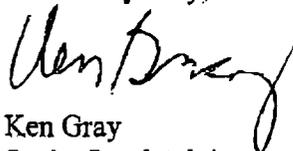
Re: Application for Unorthodox Well Location  
Rule 104 Exception  
Goodnight "35" Federal #3  
660' FWL & 440' FSL  
Section 35-T23S-R29E  
Eddy County, New Mexico

Gentlemen:

Devon SFS Operating, Inc. ("Devon") is in receipt of the referenced application submitted on behalf of Kukui Operating Company. As an offset leasehold owner and as operator of the H B 2 State #1 located in the NW/4 of Section 2-T24S-R29E, Devon hereby objects to the referenced application.

Feel free to contact the undersigned at 405-552-4633 if there are any questions.

Yours very truly,



Ken Gray  
Senior Land Advisor

KG:da\mmsantafe.ltr

cc: MBR Resources, Inc.  
810 S. Cincinnati, Suite 201  
Tulsa, OK 74119

Kaiser-Francis Oil Company  
P. O. Box 21468  
Tulsa, OK 74121-1468



# NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

**GARY E. JOHNSON**  
Governor  
**Jennifer A. Salisbury**  
Cabinet Secretary

September 11, 2001

**Lori Wrotenbery**  
Director  
Oil Conservation Division

**KUKUI Operating Company**  
Attention: **John W. Wessels**  
1415 Louisiana - Suite 3650  
Houston, Texas 77002

Case 12736

**RE:** *Administrative application of KUKUI Operating Company for a location exception (application reference No. pKRV0-124040408) filed with the New Mexico Oil Conservation Division ("Division") on August 27, 2001 for its proposed Goodnight "35" Federal Well No. 3 (API No. 30-015-31865) to be drilled at an unorthodox gas well location 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico. The S/2 of Section 35 is to be dedicated to this well in order to form a standard 320-acre lay-down gas spacing and proration unit for the Wolfcamp (Laguna Grande-Wolfcamp Gas Pool), Strawn, Atoka, and Morrow formations.*

Dear Mr. Wessels:

The Division is in receipt of an objection from Devon SFS Operating, Inc. to the subject application, see copy of letter attached.

This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for October 4, 2001. I have prepared the following advertisement in this matter:

*"Application of KUKUI Operating Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks an exception to Division Rule 104.C (2) for its proposed Goodnight "35" Federal Well No. 3 (API No. 30-015-31865) to be drilled at an unorthodox gas well location 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35, Township 23 South, Range 29 East. The S/2 of Section 35 is to be dedicated to this well in order to form a standard 320-acre lay-down gas spacing and proration unit for the Wolfcamp (Laguna Grande-Wolfcamp Gas Pool), Strawn, Atoka, and Morrow formations. This unit is located approximately 8.5 miles east by south of Loving, New Mexico".*

Should you have any questions concerning this matter, please contact me in Santa Fe at (505) 476-3465.

Sincerely,

Michael E. Stogner  
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division - Artesia  
U. S. Bureau of Land Management - Carlsbad  
Ken Gray, Devon SFS Operating, Inc. - Oklahoma City

**devon**  
**SFS OPERATING, INC.**

20 North Broadway, Suite 1500  
Oklahoma City, Oklahoma 73102-8260

Telephone: (405) 235-3611  
Fax: (405) 552-8113

September 11, 2001

VIA FACSIMILE

New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

Attention: Michael Stogner

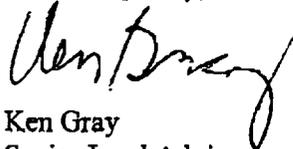
Re: Application for Unorthodox Well Location  
Rule 104 Exception  
Goodnight "35" Federal #3  
660' FWL & 440' FSL  
Section 35-T23S-R29E  
Eddy County, New Mexico

Gentlemen:

Devon SFS Operating, Inc. ("Devon") is in receipt of the referenced application submitted on behalf of Kukui Operating Company. As an offset leasehold owner and as operator of the H B 2 State #1 located in the NW/4 of Section 2-T24S-R29E, Devon hereby objects to the referenced application.

Feel free to contact the undersigned at 405-552-4633 if there are any questions.

Yours very truly,



Ken Gray  
Senior Land Advisor

KG:da\msantafe.ltr

cc: MBR Resources, Inc.  
810 S. Cincinnati, Suite 201  
Tulsa, OK 74119

Kaiser-Francis Oil Company  
P. O. Box 21468  
Tulsa, OK 74121-1468

12736

**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285

TELEFAX (505) 982-2047

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)

September 13, 2001

01 SEP 13 PM 1:09

OIL CONSERVATION DIV

**Via Facsimile**

Mr. Michael E. Stogner  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

**Re: NOTICE OF OBJECTION:  
*KUKUI Operating Company  
Goodnight "35" Federal Well No. 3  
Unit M, Section 35, T23S, R29E, NMPM,  
Administrative Application to NMOCD  
for Approval of Unorthodox Gas Well  
Location, Eddy County, New Mexico***

Dear Mr. Stogner:

By letter received on August 27, 2001, Kaiser Francis Oil Company received notification from KUKUI Operating Company of the referenced application.

On behalf of Kaiser-Francis Oil Company, as an offsetting interest owner, we hereby object to the referenced application for an unorthodox gas well location described in its administrative application to the Division.

We request that this matter be set for hearing and that Kaiser-Francis Oil Company be provided notification of the hearing in accordance with Division notice rules.

Very truly yours,



W. Thomas Kellahin

cc: *Kaiser-Francis Oil Company  
Attn: Jim Wakefield  
KuKui Operating Company  
Attn: John W. Wessels*

**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2263

SANTA FE, NEW MEXICO 87504-9206

TELEPHONE (505) 982-4888

TELEFAX (505) 982-2047

W. THOMAS KELLAHIN

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

JASON KELLAHIN (RETIRED 1994)

September 13, 2001

**Via Facsimile**

Mr. Michael E. Stogner  
Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

Re: **NOTICE OF OBJECTION:**  
*KUKUI Operating Company  
Goodnight "35" Federal Well No. 3  
Unit M, Section 35, T23S. R29E, NMPM,  
Administrative Application to NMOCD  
for Approval of Unorthodox Gas Well  
Location, Eddy County, New Mexico*

Dear Mr. Stogner:

By letter received on August 27, 2001, Kaiser Francis Oil Company received notification from KUKUI Operating Company of the referenced application.

On behalf of Kaiser-Francis Oil Company, as an offsetting interest owner, we hereby object to the referenced application for an unorthodox gas well location described in its administrative application to the Division.

We request that this matter be set for hearing and that Kaiser-Francis Oil Company be provided notification of the hearing in accordance with Division notice rules.

Very truly yours,



W. Thomas Kellahin

cc: *Kaiser-Francis Oil Company  
Attn: Jim Wakefield  
KuKui Operating Company  
Attn: John W. Wessels*



20 North Broadway, Suite 1500 Telephone: (405) 235-3611  
Oklahoma City, Oklahoma 73102-8260 Fax: (405) 552-8113

01 SEP 14 AM 11:53

September 11, 2001

VIA FACSIMILE

New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

Attention: Michael Stogner

Re: Application for Unorthodox Well Location  
Rule 104 Exception  
Goodnight "35" Federal #3  
660' FWL & 440' FSL  
Section 35-T23S-R29E  
Eddy County, New Mexico

Gentlemen:

Devon SFS Operating, Inc. ("Devon") is in receipt of the referenced application submitted on behalf of Kukui Operating Company. As an offset leasehold owner and as operator of the H B 2 State #1 located in the NW/4 of Section 2-T24S-R29E, Devon hereby objects to the referenced application.

Feel free to contact the undersigned at 405-552-4633 if there are any questions.

Yours very truly,

A handwritten signature in black ink, appearing to read "Ken Gray".

Ken Gray  
Senior Land Advisor

KG:da\nmsantafe.ltr

cc: MBR Resources, Inc.  
810 S. Cincinnati, Suite 201  
Tulsa, OK 74119

Kaiser-Francis Oil Company  
P. O. Box 21468  
Tulsa, OK 74121-1468

12736

KAISER-FRANCIS OIL COMPANY

FOURTH FLOOR

1115 A. OKLAHOMA 74121-1468

6733 South Yale Ave.  
19180-494-0000

September 12, 2001

Mr. Michael Stogner  
Engineering Bureau  
Oil Conservation Division  
New Mexico Energy, Minerals and  
Natural Resources Department  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

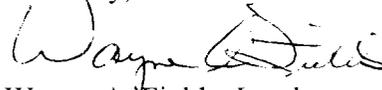
SEP 17 2001

Re: Application for Unorthodox Well Location  
Rule 104 Exception  
Goodnight "35" Federal No. 3  
660' FWL & 440' FSL of Sec. 35-T23S-R29E  
Eddy County, New Mexico

Dear Mr. Stogner:

Kaiser-Francis Oil Company has received a copy of the application for a Rule 104 Exception filed by Kukui Operating Company as described herein above. Kaiser-Francis, as an owner of an approximate 20.86% working interest in the Devon operated H.B. State #1 well located in Section 2-T24S-R29E, Eddy County, New Mexico, hereby objects to the said application.

Sincerely,



Wayne A. Fields, Landman

cc. Tom Kellahin  
Kellahin and Kellahin  
P.O. Box 2265  
Santa Fe, NM 87504-2265

## Stogner, Michael

---

**From:** Stogner, Michael  
**Sent:** Tuesday, September 18, 2001 12:40 PM  
**To:** Tom Kellahin (E-mail)  
**Subject:** Case 12736

I received yours (9-13-2001) and Kaiser-Francis Oil Company's (9-17-2001) objection to KUKUI's proposed unorthodox gas well location for its Goodnight "35" Fed. #3 in the S/2 of Sec. 35-T23S-R29E. This matter has already been set for hearing on the Oct. 4th docket due to an objection filed by Devon SFS Operating, Inc. (see Case No. 12736). Your objection letters will be made a part of the record in this case.

HOLLAND & HART LLP  
AND  
CAMPBELL & CARR  
ATTORNEYS AT LAW

DENVER • ASPEN  
BOULDER • COLORADO SPRINGS  
DENVER TECH CENTER  
BILLINGS • BOISE  
CHEYENNE • JACKSON HOLE  
SALT LAKE CITY • SANTA FE  
WASHINGTON, D.C.

SUITE 1  
110 NORTH GUADALUPE  
SANTA FE, NEW MEXICO 87501-6525  
MAILING ADDRESS  
P.O. BOX 2208  
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421  
FACSIMILE (505) 983-6043  
www.hollandhart.com

October 1, 2001

**HAND DELIVERED**

Ms. Lori Wrotenbery, Director  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1220 South Saint Francis Drive  
Santa Fe, New Mexico 87505

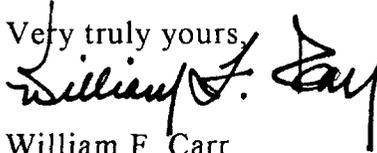
Re: Case 12736: Application of KUKUI Operating Company for an  
unorthodox gas well location, Eddy County, New Mexico.

Dear Ms. Wrotenbery;

KUKUI Operating Company hereby requests that the hearing on the above-referenced application be continued to the Examiner Hearing scheduled for October 18, 2001. This continuance will enable KUKUI to continue settlement negotiations with offset operators who are affected by this application.

Your attention to this request is appreciated.

Very truly yours,



William F. Carr  
Attorney for KUKUI Operating Company

cc: Steve C. Sandlin  
Vice President-Land  
KUKUI Operating Company

01 OCT -1 PM 3:52  
2001 OCT 1 11:01 AM

Range 26 East, in the following manner: the E/2 to form a standard 320-acre gas spacing unit for all formations and/or pools developed on 320-acre spacing within that vertical extent, which presently includes but is not necessarily limited to the South Carlsbad-Morrow Gas Pool; the SE/4 to form a standard 160-acre gas spacing unit for all formations and/or pools developed on 160-acre spacing within that vertical extent; and the NE/4 SE/4 to form a standard 40-acre spacing unit for all formations and/or pools developed on 40-acre spacing within that vertical extent. Said units are to be dedicated to Applicant's proposed Saragossa 4 Fed Com Well No. 1 to be located at a standard location in Unit I of this section. Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof, actual operating costs and charges for supervision, designation of Applicant as operator of the well, and a charge for risk involved in drilling and completing this well. This unit is located approximately 6 miles southwest of Carlsbad, New Mexico.

**CASE 12688: Reopened**

**Application of McElvain Oil & Gas Properties, Inc. for a non-standard gas spacing and proration unit, Rio Arriba County, New Mexico.** Applicant seeks an order approving a 505.20-acre gas spacing and proration unit comprised of Lots 3 and 4, S/2 NW/4 and SW/4 of Section 5 and Lots 1 through 4 of Section 6, Township 25 North, Range 2 West, for all formations and/or pools developed on 320-acre spacing. Said unit is to be dedicated to a well to be drilled to a depth sufficient to test the Mesaverde formation, Blanco-Mesaverde Gas Pool, at a standard location in the NW/4 of said Section 5. Said area is located approximately 11 miles northwest of Lindrith, New Mexico. **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT.**

**CASE 12320: Continued from August 9, 2001, Examiner Hearing.**

**Application of Chevron U.S.A. Production Co. for Approval to convert the EMSU Wells No. 210, 212, 222, 252 and 258 to Injection in the Eunice Monument South Unit, Lea County, New Mexico.** Applicant seeks approval to convert its EMSU Wells No. 210, 212, 222, 252 and 258 to injection in the Eunice Monument South Unit (EMSU). These wells are designed to improve recovery efficiency of the waterflood patterns and enhance production of the EMSU secondary recovery project. The wells are located in the following locations: No. 210 - Section 4, Unit K, Township 21 South, Range 36 East; No. 252 - Section 5, Unit I, Township 21 South, Range 36 East; No. 222 - Section 6, Unit O, Township 21 South, Range 36 East; No. 252 - Section 6, Unit W, Township 21 South, Range 36 East; No. 258 - Section 4, Unit U, Township 21 South, Range 36 East. Water will be injected into the unitized interval of the Eunice Monument Grayburg-San Andres Pool which has an upper limit of 100 feet below mean sea level or the top of the Grayburg formation, whichever is higher, to a lower limit of the base of the San Andres formation. Injection will occur at an expected maximum pressure rate of 1500 barrels of water per day and an expected maximum pressure of 750 pounds per square inch. This area is approximately one mile west-southwest of Oil Center, New Mexico.

**CASE 12736: Application of KUKUI Operating Company for an unorthodox gas well location, Eddy County, New Mexico.** Applicant seeks an exception to Division Rule 104.C (2) for its proposed Goodnight "35" Federal Well No. 3 (API No. 30-015-31865) to be drilled at an unorthodox gas well location 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35, Township 23 South, Range 29 East. The S/2 of Section 35 is to be dedicated to this well in order to form a standard 320-acre lay-down gas spacing and proration unit for the Wolfcamp (Laguna Grande-Wolfcamp Gas Pool), Strawn, Atoka, and Morrow formations. This unit is located approximately 8.5 miles east by

south of Loving, New Mexico.

**CASE 12710:** Continued from August 23, 2001, Examiner Hearing.

**Application of Chesapeake Exploration L.P. for a determination that its interest is not subject to Division Order R-11580.** Applicant seeks a determination by the Division that its interest in the NW/4 of Section 31, Township 15 South, Range 36 East, Lea County, New Mexico is not subject to Division Order R-11580, which is a compulsory pooling order pooling "all uncommitted mineral interest" obtained by David H. Arrington Oil & Gas Inc. covering the NW/4 and the SE/4 NW/4 of this section and dedicated to Arrington's Royal Simulator Well No. 1 (API No. 30-025-35284). The well is located approximately 2 miles north of the center of the City of Lovington, New Mexico.

**CASE 12737:** In the matter of the hearing called by the Oil Conservation Division for an order creating and extending certain pools in Chaves and Eddy Counties, New Mexico.

- (a) CREATE a new pool in Eddy County, New Mexico classified as a gas pool for Strawn production and designated as the Cedar Lake Reef-Strawn Gas Pool. The discovery well is the EOG Resources, Inc. Oak Lake "25" Federal Well No. 1 located in Unit D of Section 25, Township 17 South, Range 30 East, NMPM. Said pool would comprise:

**TOWNSHIP 17 SOUTH, RANGE 30 EAST, NMPM**

Section 25: NW/4

- (b) CREATE a new pool in Eddy County, New Mexico classified as a gas pool for Strawn production and designated as the Crow Flats-Strawn Gas Pool. The discovery well is the Devon "SFS", Inc. Crow Flat "20" Federal Com. Well No. 1 located in Unit K of Section 20, Township 16 South, Range 28 East, NMPM. Said pool would comprise:

**TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM**

Section 20: W/2

- (c) CREATE a new pool in Eddy County, New Mexico classified as an oil pool for Wolfcamp production and designated as the Crow Flats-Wolfcamp Pool. The discovery well is the Mack Energy Corporation Elk "22" Federal Well No. 1 located in Unit D of Section 22, Township 16 South, Range 28 East, NMPM. Said pool would comprise:

**TOWNSHIP 16 SOUTH, RANGE 28 EAST, NMPM**

Section 22: NW/4

- (d) CREATE a new pool in Chaves County, New Mexico classified as a gas pool for Pre-Permian production and designated as the Northwest Foor Ranch-Pre-Permian Gas Pool. The discovery well is the Yates Petroleum Corporation Filaree "AEL" Federal Well No. 4 located in Unit M of Section 33, Township 8 South, Range 26 East, NMPM. Said pool would comprise:

**TOWNSHIP 8 SOUTH, RANGE 26 EAST, NMPM**

Section 33: S/2

- (e) CREATE a new pool in Chaves County, New Mexico classified as a gas pool for Pre-Permian production and designated as the Southwest Foor Ranch-Pre-Permian Gas Pool. The discovery well is the Keno

HOLLAND & HART LLP  
AND  
CAMPBELL & CARR  
ATTORNEYS AT LAW

DENVER • ASPEN  
BOULDER • COLORADO SPRINGS  
DENVER TECH CENTER  
BILLINGS • BOISE  
CHEYENNE • JACKSON HOLE  
SALT LAKE CITY • SANTA FE  
WASHINGTON, D.C.

SUITE 1  
110 NORTH GUADALUPE  
SANTA FE, NEW MEXICO 87501-6525  
MAILING ADDRESS  
P.O. BOX 2208  
SANTA FE, NEW MEXICO 87504-2208

TELEPHONE (505) 988-4421  
FACSIMILE (505) 983-6043  
www.hollandhart.com

October 31, 2001

**HAND DELIVERED**

Michael E. Stogner  
Petroleum Engineer  
Oil Conservation Division  
New Mexico Department of Energy,  
Minerals and Natural Resources  
1200 South Saint Francis Drive  
Santa Fe, New Mexico 87505

Re: Oil Conservation Division Case 12736: Application of KUKUI Operating Company for an Unorthodox gas well location, Eddy County, New Mexico.

Dear Mr. Stogner;

Enclosed for your consideration is a draft of an administrative order approving the application of KUKUI Operating Company for an unorthodox gas well location for its proposed Goodnight "35" Federal Well No. 3 at a point 660 feet from the West line and 440 feet from the South line of Section 35, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico. This order is also submitted on disc and has been E-mailed to your office. As you are aware, this application was filed for administrative approval but, following objections from offset operators, was set for hearing.

Enclosed is the October 17, 2001 letter by which Devon SFS Operating, Inc. and Kaiser-Francis Oil Company agreed to withdraw their objections to the KUKUI application if a 33% production penalty was imposed on the well's ability to produce. The agreement also provides that the penalty shall not require that the well be produced at rates less than 500 MCF/D.

If the settlement set out in the October 17, 2001 letter meets with your approval, KUKUI requests that an administrative order be entered approving the proposed unorthodox gas well location and that Case 12736 be dismissed.

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110 NORTH GUADALUPE  
SANTA FE, NEW MEXICO 87501-6525

Letter to Michael E. Stogner  
October 31, 2001  
Page 2

If you need additional information from KUKUI concerning this matter, please advise.  
Your attention to this request is appreciated.

Very truly yours,



William F. Carr  
Attorney for KUKUI Operating Company

Enc.

cc: Steve C. Sandlin  
Vice President-land  
KUKUI Operating Company  
1415 Louisiana, Suite 3650  
Houston, Texas 77002

W. Thomas Kellahin, Esq.  
Attorney for Devon SFS Operating, Inc. and  
Kaiser-Francis Oil Company

October 31, 2001

KUKUI Operating Company  
c/o William F. Carr  
Post Office Box 2208  
Santa Fe, New Mexico 87504-2208

**Administrative Order NSL-\_\_\_\_\_**

Dear Mr. Carr:

Reference is made to the following: (i) KUKUI Operating Company's application submitted to the Oil Conservation Division ("Division") on August 23, 2001, (ii) the objection of Devon SFS Operating, Inc., (iii) the records of the Division in Santa Fe including the file and transcript of the October 18, 2001 New Mexico Oil Conservation Division Case No. 12736, and (iv) the letter agreement dated October 17, 2001 between KUKUI Operating Company, Devon SFS Operating, Inc. and Kaiser-Francis Oil Company; all concerning KUKUI Operating Company's request for an unorthodox gas well location for its Goodnight "35" Federal Well No. 3 to be drilled at an unorthodox gas well location to test all formations from the surface to the base of the Morrow formation to be located 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35, Township 23 South, Range 29 East, NMPM Eddy County, New Mexico.

The agreement between KUKUI Operating Company, Devon SFS Operating, Inc. and Kaiser-Francis Oil Company provides that (i) Devon and Kaiser-Francis withdraw their objections to the proposed unorthodox well location, (ii) a 33% production penalty be imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Oil Conservation Division and, if they desire after being provided notice of the test, may be witnessed by Devon SFS Operating, Inc. and Kaiser-Francis Oil Company, and (iii) the imposition of a production penalty will not require that the well be produced at rates of less than 500MDF/D.

The geologic interpretation submitted with the application indicates that a well at either an orthodox well location 660 feet from the South and West lines of Section 35 or at the proposed unorthodox location is a acceptable location within the Wolfcamp, Strawn, Atoka and Morrow formations. However, it is our understanding that the proposed unorthodox well location is required by the Bureau of Land Management because of its proximity to known potash reserves as shown on the Division Form C-102 attached to the application.

This application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation

Commission in Case No. 12119 on August 12, 1999. Since the unorthodox well location is 33% closer to the outer boundary of the dedicated acreage that permitted by Division rule, the agreed to 33% production penalty and other conditions of the October 17, 2001 agreement are reasonable and will prevent waste and protect the correlative rights of all affected interest owners.

By the authority granted me under the provisions of Division Rules 104.F (2), the above described unorthodox gas well location within the proposed 320-acre lay-down unit comprising the S/2 of Section 35 for KUKUI Operating Company's proposed Goodnight "35: Federal Well No. 3 is hereby approved, provided, however, a 33% production penalty is hereby imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Oil Conservation Division and, if they desire after being provided notice of the test, may be witnessed by Devon SFS Operating, Inc. and Kaiser-Francis Oil Company. Provided, however, that the imposition of the 33% production penalty will not require that the well be produced at rates of less than 500MDF/D.

Sincerely,

Lori Wrotenbery  
Director

cc: New Mexico Oil Conservation Division - Artesia  
U.S. Bureau of Land Management  
W. Thomas Kellahin, Esq. Attorney for Devon SFS Operating, Inc.  
and Kaiser-Francis Oil Company

## **Stogner, Michael**

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**From:** Stogner, Michael  
**Sent:** Friday, October 26, 2001 3:25 PM  
**To:** William F. Carr (E-mail); Tom Kellahin (E-mail)  
**Subject:** Kukui

Messrs. Carr and Kellahin

At last Thursday's hearing (October 18, 2001) the Division agreed to remand the application in this case from the hearing process to the Division's administrative process. Further, Mr. Carr was to provide me a draft NSL Order, which will also incorporate a letter of agreement between Kaiser-Francis, Devon, and Kukui, this week. To date I have received nothing. As you know turn-around-times on Mr. Catanach's orders and mine are being monitored closely. Since this matter was originally received on August 27, 2001, the release of an administrative order in this matter will exceed 60 days. This time frame, as I understand, is unacceptable even though the Division acted in a timely fashion to write an advertisement and have this matter docketed for hearing within 15 days.

I am therefore sending notice that I am placing a time limit for this matter to be resolved administratively. I must have a copy of this agreement between the parties and the draft order by closing time (5:00 p.m.) Wednesday October 31, 2001. If this deadline cannot be met, this matter must then be returned to the hearing process for resolution and finalization.

I apologize for any inconvenience this determination may cause, I however must do whatever I can to minimize turn-around-times on those administrative duties assigned me.

Oct. 18, 2001

William F. Carr prior to the hearing requested that the case be conserved to Nov. 15<sup>th</sup> to allow

request for a NSU operating to remand ~~the~~ its process. Tom Kellahin ~~stated~~ back to the administrative (representing Devon and Kaiser Francis) stated no objection since Kukui has agreed to

penalty. Carr will provide a draft adm. order next week.

Lots 1 through 4 of Section 6, Township 25 North, Range 2 West, for all formations and/or pools developed on 320-acre spacing. Said unit is to be dedicated to a well to be drilled to a depth sufficient to test the Mesaverde formation, Blanco-Mesaverde Gas Pool, at a standard location in the NW/4 of said Section 5. Said area is located approximately 11 miles northwest of Lindrith, New Mexico. **IN THE ABSENCE OF OBJECTION, THIS APPLICATION WILL BE TAKEN UNDER ADVISEMENT.**

**CASE 12743:** Application of Texaco Exploration and Production Inc. for an unorthodox subsurface gas well location and an exception to Division Rule 104.D (3), Lea County, New Mexico. Applicant, in accordance with Division Rule 111.C (2), seeks an exception to Division Rule 104.C (3) for its C. H. Weir "A" Well No. 7 (API No. 30-025-06073), located at a standard surface gas well location 1985 feet from the South line and 660 feet from the West line (Unit L) of Section 12, Township 20 South, Range 37 East, to be recompleted into the Skaggs-Abo Gas Pool (85410) by kicking-off in a northern direction and drilling horizontally an approximate distance of 1,645 feet within an existing non-standard 160-acre gas spacing unit comprising the S/2 NW/4 and N/2 SW/4 of Section 12 (approved by Division Order No. R-7179, issued in Case No. 7761 on January 5, 1983) such that the resulting producing area extends to within 330 feet to the northern boundary of this unit. Further, the applicant seeks an exception to Division Rule 104.D (3) in order to simultaneously dedicate Skaggs Abo gas production from the above-described C. H. Weir "A" Well No. 7 with the existing C. H. Weir "A" Well No. 14 (API No. 30-025-27829), located at a standard gas well location 1980 feet from the South line and 1815 feet from the West line (Unit K) of Section 12. This unit is located approximately nine miles southwest of Hobbs, New Mexico.

**CASE 12736:** Continued from October 4, 2001, Examiner Hearing.

Application of KUKUI Operating Company for an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks an exception to Division Rule 104.C (2) for its proposed Goodnight "35" Federal Well No. 3 (API No. 30-015-31865) to be drilled at an unorthodox gas well location 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35, Township 23 South, Range 29 East. The S/2 of Section 35 is to be dedicated to this well in order to form a standard 320-acre lay-down gas spacing and proration unit for the Wolfcamp (Laguna Grande-Wolfcamp Gas Pool), Strawn, Atoka, and Morrow formations. This unit is located approximately 8.5 miles east by south of Loving, New Mexico.

**CASE 12744:** Application of TMBR/Sharp Drilling, Inc. appealing to the Director of the New Mexico Oil Conservation Division the Hobbs District Supervisor's decision denying approval of two applications for permit to drill ("APDs") filed by TMBR/Sharp Inc., Lea County, New Mexico. Applicant requests that the Director order the District Supervisor to approve TMBR/Sharp's permit to drill its Blue Fin 25 Well No. 1 to be dedicated to a 320-acre spacing unit consisting of the W/2 of Section 25, Township 16 South, Range 35 East and TMBR/Sharp's permit to drill its Leavelle 23 Well No. 1 to be dedicated to a 320-acre spacing unit consisting of the E/2 of Section 23, Township 16 South, Range 35 East. These wells are located approximately 5 miles southwest of the center of the City of Lovington, New Mexico.

**CASE 12745:** Application of Burlington Resources Oil & Gas Company and Conoco Inc. to amend the Special Rules and Regulations for the Basin-Dakota Gas Pool to increase well density and amend well location requirements, San Juan, McKinley, Sandoval and Rio Arriba Counties, New Mexico. Applicant seeks the amendment of the Special Rules and Regulations for the Basin-Dakota Gas Pool to authorize wells to be drilled anywhere in a standard 320-acre gas proration and spacing unit provided