

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

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

**CASE NO. 13862
ORDER NO. R-12721**

**APPLICATION OF PARALLEL PETROLEUM CORPORATION FOR
APPROVAL OF A UNIT AGREEMENT, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 18, 2007, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 23rd day of February, 2007, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) The applicant, Parallel Petroleum Corporation, ("Applicant") seeks approval of its Walnut Draw State Exploratory Unit Agreement for all oil and gas in all formations from the surface to the base of the Wolfcamp formation underlying the following-described 1,040 acres, more or less, of State of New Mexico lands situated in Eddy County, New Mexico:

Township 18 South, Range 21 East, N.M.P.M.

Section 24: S/2, S/2 NW/4

Section 25: AH

(3) Applicant presented testimony that demonstrates that:

(a) One hundred percent (100%) of the working interests within the Unit area are committed to the Unit;

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- (b) One hundred percent (100%) of the royalty interests within the Unit area are owned by the State of New Mexico;
 - (c) One hundred percent (100%) of the overriding royalty interests within the Unit area are committed to the Unit;
 - (d) The Commissioner of Public Lands has given preliminary approval for the proposed Unit;
 - (e) The initial well will be drilled as a horizontal well from an unorthodox surface location 660 feet from the North line and 230 feet from the East line of Section 25, Township 18 South, Range 21 East, N.M.P.M. The well will penetrate the Wolfcamp formation (the primary target for this well) at an orthodox point of penetration 670 feet from the North line and 660 feet from the East line of said Section, and proceed to an orthodox terminus and bottomhole location 760 feet from the North line and 660 feet from the West line of said Section;
 - (f) Applicant plans to drill additional wells to develop the Unit if the initial well is successful.
- (4) No other party appeared at the hearing or otherwise opposed this application.
- (5) All of the proposed Unit acreage appears to be prospective for recovery of gas from the target formations under the concept proposed by Applicant. These acres should be unitized and should share equally in the costs and benefits of future oil and gas production from the Unit.
- (6) Approval of the proposed Unit Agreement will prevent waste and protect correlative rights within the lands comprising the Unit Area.

IT IS THEREFORE ORDERED THAT:

(1) The Walnut Draw State Exploratory Unit Agreement admitted in evidence as Attachment A to Exhibit A in this case is hereby approved for all oil and gas in all formations from the surface to the base of the Wolfcamp formation underlying the following-described 1,040 acres, more or less, of State of New Mexico lands situated in Eddy County, New Mexico:

Township 18 South, Range 21 East N.M.P.M.

Section 24: S/2, S/2 NW/4
Section 25; All

(2) The plan contained in the Walnut Draw State Exploratory Unit Agreement for the development and operation of the above-described Unit Area is hereby approved in principle; provided, however, notwithstanding any provision in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty or obligation that is now, or may hereafter be, vested in the Division to supervise or control operations of the Unit and production of oil or gas therefrom.

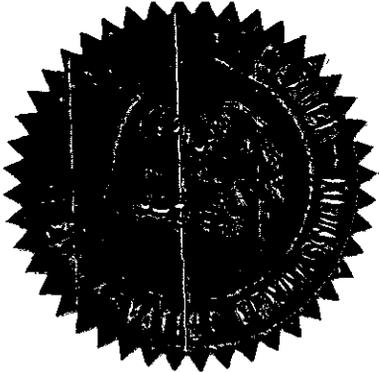
(3) The Unit operator shall file with the Division an executed original or executed counterpart of the Unit Agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the Unit Area, the Unit operator shall file with the Division, within 30 days thereafter, copies of the Unit Agreement reflecting the subscription of those parties or interests having joined or ratified.

(4) All (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the Unit Area shall be submitted to the Division Director for approval.

(5) This order shall become effective upon approval of the Unit Agreement by the New Mexico State Land Office. This order shall terminate upon termination of the Unit Agreement. The last Unit operator shall notify the Division immediately in writing of such termination.

(6) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', written in a cursive style.

MARK E. FESMIRE, P.E.
Director