

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

September 11, 2007

Parallel Petroleum Corporation
c/o Mr. W. Thomas Kellahin
Kellahin & Kellahin
706 Gonzales Rd
Santa Fe, NM 87501

Administrative Order SD-200723

Re: Parallel Petroleum Corporation
Swale 1525-16 State Well No. 2
API No. 30-005-63924
Unit M, Section 16, Twsp 15S, Range 25E
Chaves County

Dear Mr. Kellahin:

Reference is made to the following:

(a) your application (**administrative SD application reference No. pTDS07-22952201**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on August 17, 2007, on behalf of Parallel Petroleum Corporation (Parallel); and

(b) the Division's records pertinent to Parallel's request.

Parallel has requested to simultaneously dedicate the S/2 of Section 16, Township 15 South, Range 25 East, NMPM, in Chaves County to its proposed Swale 1525-16 State Well No. 2 (API No. 30-0015-63924) and to its existing Swale 1525-16 Well No. 1 (API No. 30-005-63886). The S/2 of Section 16 of Township 15 South, Range 25 East is a standard wildcat Wolfcamp gas spacing unit.

The Swale 1525-16 State Well No. 1H is a horizontal gas well completed in the Wolfcamp formation, projected from an unorthodox surface location 1880 feet from the South line and 208 feet from the West line (Unit L) of Section 16 to an orthodox point of penetration in the Wolfcamp formation, 1880 feet from the South line and 660 feet from the West line of said Section, and thence to an orthodox terminus 1880 feet from the South line and 660 feet from the East line (Unit I) of the same section.

Parallel proposes to drill the Swale 1525-16 State Well No. 2 as a horizontal well in the Wolfcamp formation, projected from an unorthodox surface location 760 feet from the South line and 190 feet from the West line (Unit M) of Section 16 to an orthodox point of penetration of the Wolfcamp formation, 760 feet from the South line and 660 feet from the West line of said section, and thence to an orthodox terminus 760 feet from the South line and 660 feet from the East line (Unit P) of the same section.

Spacing in the Wildcat Wolfcamp Gas Pool is governed by Statewide Rule 104.C(2), which allows two wells to be completed in a 320-acre unit, but requires that the wells be in different quarter sections. Because both the proposed well and the existing well will be completed within both quarter sections of this 320-acre unit, division approval for simultaneous dedication is required.

Your application on behalf of Parallel has been duly filed under the provisions of Division Rules 104.D(3) and 1210.A.

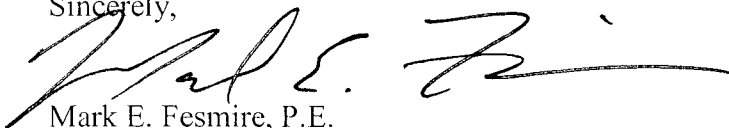
It is our understanding that Parallel has proposed the simultaneous dedication of this unit to the two wells described for geological reasons, in order to prevent waste and maximize production from this unit.

We further understand that all "affected persons" in all offsetting units within the Wolfcamp formation where Parallel does not own 100% of the working interest have been duly notified of the filing of this application.

Pursuant to the authority granted to the Division by Rule 104.D(3), the above-described simultaneous dedication is hereby approved.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', with a stylized flourish at the end.

Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Artesia
New Mexico State Land Office - Santa Fe