

MILLER STRATVERT

LAW OFFICES

Ranne B. Miller
Alice T. Lorenz
Stephen M. Williams
Stephan M. Vidmar
Seth V. Bingham
Timothy R. Briggs
Rudolph Lucero
Deborah A. Solove
Gary L. Gordon
Lawrence R. White
Virginia Anderman
Marte D. Lightstone
J. Scott Hall*
Thomas R. Mack
Thomas M. Domme

Ruth O. Pregenzer
Jeffrey E. Jones
James J. Widland
Bradley D. Tepper**
Robin A. Goble
James R. Wood
Dana M. Kyle
Kirk R. Allen
Ruth Fuess
H. Brook Laskey
Paula G. Maynes
M. Dylan O'Reilly
Jennifer D. Hall
Todd A. Schwarz

Nell Graham Sale
Scott P. Hatcher
Ann M. Conway
Randall J. McDonald
Robert H. Clark
Richard L. Alvidrez
Kelsey D. Green
Marcy Baysinger
Caroline Blankenship
Matthew S. Rappaport
Karen E. Wootton
Joseph L. Romero
Kelly A. Stone
Deron B. Knoner

Patricia A. Bradley
T. Aaron Garrett
Amy P. Hauser
Rebecca M. Alves
Alisa R. Wigley-DeLara

Of Counsel

William K. Stratvert
James B. Collins
Sharon P. Gross
Terri S. Beach
Robert D. Taichert

Reply to Santa Fe

150 Washington Ave., Suite 300
Santa Fe, NM 87501

Mailing Address:
P.O. Box 1986
Santa Fe, NM 87504-1986

Telephone: (505) 989-9614
Facsimile: (505) 989-9857

Writer's Direct E-Mail:
shall@mstlaw.com

* Board Certified Specialist: Natural Resources - Oil & Gas Law
** Board Certified Specialist: Real Estate Law

July 27, 2006

HAND-DELIVERED

Ms. Florene Davidson
New Mexico Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504

Re: NMOCD Case No. 13771; Application of Kaiser-Francis Oil Company for Pool Creation, Promulgation of Special Pool Rules, for an Exception to the Gas-Oil Ration Limitation, Assignment of a Special Depth Bracket Allowable and Temporary Suspension of Drilling Permits Within the Undesignated Portions of the Proposed Pool, Eddy County, New Mexico

Dear Florene:

Enclosed for filing is an Application in the referenced matter. Also enclosed in hard copy and on disk is a proposed advertisement for the Division's use.

Please schedule the hearing for the September 14, 2006 examiner hearing docket. Thank you for your assistance.

Very truly yours,

MILLER STRATVERT P.A.



J. Scott Hall

JSH/glb
Enclosures

A PROFESSIONAL ASSOCIATION

ALBUQUERQUE
(505) 842-1950

FARMINGTON
(505) 326-4521

LAS CRUCES
(505) 523-2481

SANTA FE
(505) 989-9614

2006 JUL 27 PM 3 20

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

2008 JUL 27 PM 3 20

**IN THE MATTER OF THE APPLICATION
OF KAISER-FRANCIS OIL COMPANY FOR
POOL CREATION, PROMULGATION OF SPECIAL
POOL RULES, FOR AN EXCEPTION TO THE GAS-OIL
RATIO LIMITATION, ASSIGNMENT OF A SPECIAL
DEPTH BRACKET ALLOWABLE AND TEMPORARY
SUSPENSION OF DRILLING PERMITS WITHIN THE
UNDESIGNATED PORTIONS OF THE PROPOSED POOL,
EDDY COUNTY, NEW MEXICO**

CASE NO. 13771

APPLICATION

Kaiser-Francis Oil Company by its undersigned attorneys, Miller Stratvert P.A. (J. Scott Hall) hereby makes application for an order creating a new pool in the Second Bone Spring formation comprised of the W/2 of Section 11, T22S, R26E, NMPM, Eddy County, New Mexico and for the promulgation of special pool rules establishing 320-acre spacing and proration units with the option for a second well and designated well locations. Applicant further seeks an exception from the gas oil ratio limitation under Division Rule 506 A that would permit wells drilled within the proration unit within the pool to produce up to a GOR limitation of three thousand cubic feet of gas for each barrel of oil produced, along with a commensurate increase in the depth bracket allowable under Division Rule 505. In support thereof, Applicant would show the Division:

1. Applicant is the operator of the Mesa-Grande 11 Well No. 2 (API No. 30-015-3720) drilled to the undesignated Happy Valley Strawn Gas Pool (78060) and the South Carlsbad Morrow Gas Pool (73960) at an unorthodox deep gas well location 2661' FSL and 660' FWL (Unit L) of Section 11, T22S, R26E.

2. The unorthodox deep gas well location for the Mesa-Grande 11 Well No. 2 was authorized by the Division's Administrative Order NSL-5133 issued on November 17, 2004. Efforts to complete the Mesa-Grande 11 Well No. 2 in the Morrow and Strawn formations were unsuccessful due to mechanical failure. Consequently, Applicant obtained the Division's authorization to complete the Mesa-Grande 11 Well No. 2 in the Delaware and/or Bone Spring intervals. (Case No. 13594; Order No. R-12459, December 1, 2005.)

3. In January 2006, Applicant recompleted the Mesa-Grande 11 Well No. 2 in the Second Bone Spring limestone formation with perforations in the interval between 6321' and 6426'.

4. Geologic and engineering data obtained from the Mesa-Grande 11 Well No. 2 show that the well is located in a new common source of supply and to efficiently produce the reserves from this new pool, special acreage dedication and well location requirements are appropriate. The subject well is capable of draining areas in excess of the standard 40-acre unit assigned to the well under the Division's statewide rules.

5. PVT data obtained from the well indicates the discovery of a relatively small oil reservoir with a large gas column. Further, formation permeability is relatively high and indicates that the 320-acre reservoir can be adequately drained by one well. After one month of production, reservoir pressure has declined 400 psi which is indicative of a reservoir of small size. Development of the reservoir with spacing units smaller than 320-acres would result in the inefficient recovery of hydrocarbon resources.

6. Initial production data for the well shows that the well is capable of producing approximately 157 BOPD and 1391 MCFPD with a flowing tubing pressure of 1600 psig with the well on a 16/64th choke.

7. As a result of the producing characteristics of this reservoir, 320-acre well spacing and acreage dedication requirements are indicated, along with 660' designated well location setbacks. At the current rate of production of 157 BOPD with the existence of a gas cap on the reservoir, wells in the proposed 320-acre proration unit could not be efficiently produced under the restriction of the statewide gas oil ratio limitation of 2000 cubic feet of gas for each barrel of oil produced. Allowing wells in the proration unit to produce up to a GOR limitation of 3000 cubic feet of gas for each barrel of oil produced and with a commensurate increase of the depth bracket allowable will enable the operator of the pool to more efficiently produce the hydrocarbons within the reservoir and is otherwise in the interest of conservation, the prevention of waste and the protection of correlative rights.

8. The pool is a new discovery, the name for which has not yet been established pursuant to the Division's nomenclature process. On approximately July 26, 2006, Applicant submitted its Form C-109 Application for Discovery Allowable and Creation of a New Pool requesting that the pool be named the Living Desert Second Bone Spring Pool or alternatively the Pecos Valley Second Bone Spring Pool or Carlsbad South Second Bone Spring Pool. Applicant proposes that the vertical limits of the proposed pool in the W/2 of Section 11 conform to the stratigraphic equivalent of the Second Bone Springs interval occurring between 6,312 and 6,452' as shown on the open hole logs of the Mesa Grande 11 Well No. 2.

9. Applicant seeks the promulgation of special pool rules and regulations which provide for spacing units in the Second Bone Spring formation comprised of 320-acre units with the option for a second well with wells to be located no closer than 660' from the outer boundary of the quarter section on which the well is located and no closer than 10' to any quarter-quarter

section line or inner boundary subdivision. Applicant further proposed to have the horizontal boundaries of the new pool to be comprised of the W/2 of Section 11, T22S, R26E.

10. Applicant further requests that the Division suspend and otherwise withhold approval for all applications for permits to drill within the vertical and horizontal boundaries of the proposed pool and the undesignated portions thereof, at well locations that are inconsistent with the 660' well location setback requirement being proposed for the new pool.

11. The adoption of special pool rules and regulations for the new pool and the creation of the pool to include the W/2 of said Section 11 is necessary and appropriate for the orderly and efficient development of Second Bone Spring formation reserves. Second Bone Spring formation oil reserves in the vicinity are best developed and produced on 320-acre units so that the unnecessary dissipation of reservoir energy, the violation of correlative rights, a reduction of the ultimate recovery reserves and the drilling of unnecessary wells may be avoided.

WHEREFORE, Kaiser-Francis Oil Company request this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on September 14, 2006 and that after notice and hearing as required by law in the Rules of the Division, the Division enter its order granting this Application and providing such other relief as deemed appropriate.

Respectfully submitted,



J. Scott Hall, Esq.
MILLER STRATVERT P.A.
Attorneys for Kaiser-Francis Oil Company
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

Case No. 13771 : APPLICATION OF KAISER-FRANCIS OIL COMPANY FOR POOL CREATION, PROMULGATION OF SPECIAL POOL RULES, FOR AN EXCEPTION TO THE GAS-OIL RATIO LIMITATION, ASSIGNMENT OF A SPECIAL DEPTH BRACKET ALLOWABLE AND TEMPORARY SUSPENSION OF DRILLING PERMITS WITHIN THE UNDESIGNATED PORTIONS OF THE PROPOSED POOL, EDDY COUNTY, NEW MEXICO. Applicant seeks an order creating a new pool in the Second Bone Spring formation comprised of the W/2 of Section 11, Township 22 South, Range 26 East, and for the promulgation of special pool rules establishing 320-acre spacing and proration units with the option for a second well and designated well locations, including 660' setback requirements. Applicant also seeks an exception from the gas oil ratio limitation under Division Rule 506 A that would permit wells drilled within the proration unit within the pool to produce up to a GOR limitation of three thousand cubic feet of gas for each barrel of oil produced, along with a commensurate increase in the depth bracket allowable under Division Rule 505. In addition, Applicant seeks the temporary suspension of drilling permits within the boundaries of the proposed pool and the undesignated portions thereof for wells to be drilled at locations that are inconsistent with the well setback requirements proposed for the pool. Applicant is the operator of the Mesa-Grande 11 Well No. 2 (API No. 30-015-3720) completed in the Second Bone Spring formation at a location 2661' FSL and 660' FWL (Unit L) of Section 11, T22S, R26E. The well and lands are located approximately ½ mile southwest of Carlsbad, New Mexico.

2006 JUL 27 PM 3 20