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NATURAL RESOURCES-OIL AND GAS LAW

ALSO ADMITTED IN ARIZONA

SANTA FE, NEW MEXICO 87504-2265

JASON KELLAHIN (RETIRED 1991)

June 3, 1992

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

HAND DELIVERED

10496

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

Dear Mr. Lemay:

On behalf of Southland Royalty Company, please find enclosed our application for a hearing for the Aztec #700 Well. We request that this case be set for hearing on June 25, 1992 Examiner's Docket.

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

Very truly yours,

  
W. Thomas Kellahin

WTK/jcl

Enclosure

xc: with Enclosure

Alan Alexander - Farmington, NM

By Certified Mail - Return Receipt Requested

To all parties listed on Exhibits "A" and "B"  
of the Application

appt603.330

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

IN THE MATTER OF THE APPLICATION  
OF SOUTHLAND ROYALTY COMPANY FOR  
APPROVAL OF AN UNORTHODOX  
GAS WELL LOCATION, APPROVAL OF  
A NON-STANDARD SPACING AND  
PRORATION UNIT AND DOWNHOLE  
COMMINGLING, SAN JUAN COUNTY,  
NEW MEXICO

RECEIVED

JUN 03 1992

OIL CONSERVATION DIVISION

10496

A P P L I C A T I O N

Comes now SOUTHLAND ROYALTY COMPANY, by and through its attorneys, Kellahin, Kellahin & Aubrey, and applies to the New Mexico Oil Conservation Division for approval to drill its proposed Southland Royalty Company's Aztec #700 Well as follows:

(1) at an unorthodox well location 2280 feet FSL and 1500 feet FWL of Section 14, T28N, R11W, NMPM, San Juan County, New Mexico;

(2) to downhole commingle production from the Fulcher-Kutz Pictured Cliffs Gas Pool and the Basin Fruitland Coal Gas Pool, said well being located in the NW/4SW/4 of said Section 14;

(3) with the dedication of a standard spacing unit containing 320 acres and consisting of the S/2 of said Section 14 for production from the Basin Fruitland Coal Gas Pool; and

(4) the dedication of a previously approved non-standard proration and spacing unit containing 160

acres and consisting of the W/2 NW/4 and N/2 SW/4 of said Section 14 for production from the Fulcher-Kutz Pictured Cliff Pool.

AND IN SUPPORT THEREOF STATES:

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

(2) Southland proposed the subject well at a standard location in Unit M at 810 feet FSL and 790 feet FWL but its request was denied by the Bureau of Land Management because of visual impairment.

(3) In compliance with Bureau of Land Management requirements, Southland now proposes the subject well be drilled at an unorthodox location 1500 feet FWL and 2280 feet FSL to a depth sufficient to test both the Fulcher-Kutz Pictured Cliffs Gas Pool and the Basin Fruitland Coal Gas Pool.

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

(5) The subject non-standard proration and spacing unit for the Fulcher-Kutz Pictured Cliffs production was

previously approved by Division Administrative Order NWU-80 dated May 20, 1955 and is currently dedicated to the Aztec Well No. 3 in Unit E of said Section which will be plugged and abandoned and replaced by the Aztec #700 well.

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

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

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

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

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

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

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

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

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

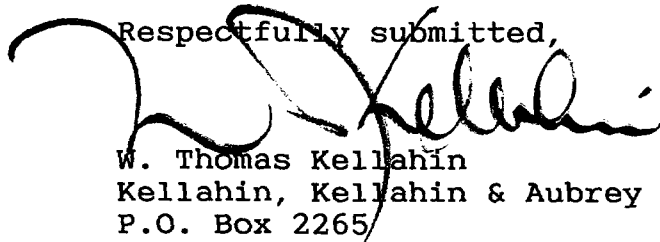
(8) The ownership between the two pools is identical.

(9) Southland requests that this matter be docketed for hearing on the Division Examiner docket now scheduled for March 19, 1992.

(10) A copy of this application has been sent to all offsetting operators and to the owners of interest in the affected production within the two spacing units as set forth on Exhibits A and B.

WHEREFORE, Southland requests that this matter be set for hearing on June 25, 1992 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted,



W. Thomas Kellahin  
Kellahin, Kellahin & Aubrey  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
(505) 982-4285  
Attorneys for Applicant

EXHIBIT "A"

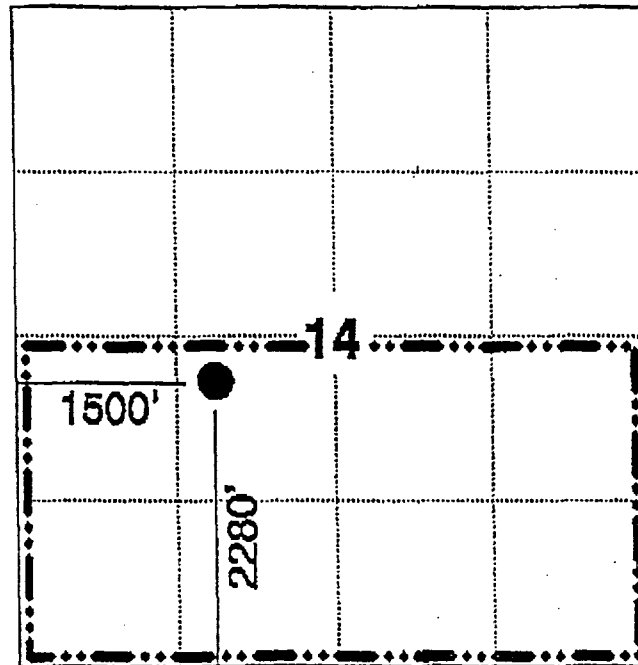
**AZTEC #700**  
**OFFSET OPERATOR PLAT**

**Pictured Cliffs \Fruitland Coal Co-Mingle**

**Fruitland Coal Ownership**

**Township 28 North, Range 11 West**

**San Juan County, New Mexico**



Southland Royalty Company

Marathon Oil Company

PO Box 552, Midland, TX 79702

Joe C Salmon

1535 Highway 84, Bloomfield, NM 87413

Mesa Limited Partnership

PO Box 2009, Amarillo, TX 79169

Chaparral Resources

821 17th St, Suite 1301, Denver, CO 80293

Petrocorp Inc.

18800 Greensport Park Dr, Ste 300 N Atrium, Houston, TX 77060

W M Galloway

3005 Northridge Dr., Suite 1, Farmington, NM 87401

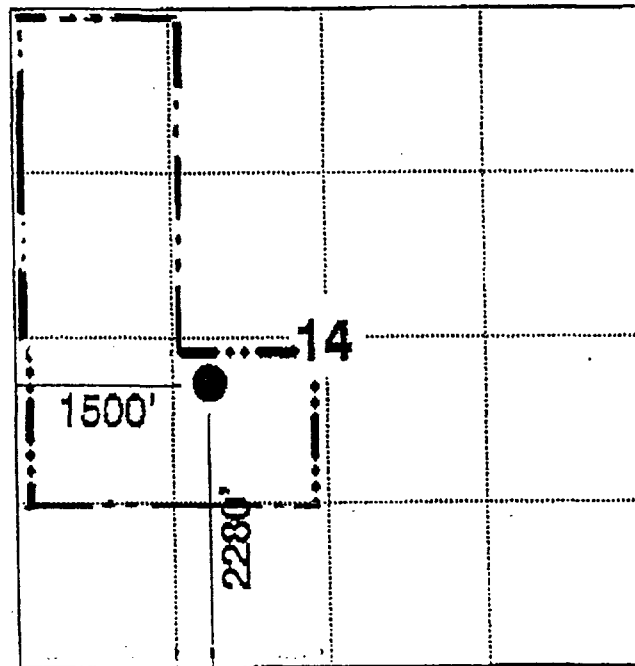
# AZTEC #700

## OFFSET OPERATOR PLAT

Plotured Cliffs \Fruitland Coal Co-Mingle  
and Unothodox Location

Fruitland Coal Ownership

Township 28 North, Range 11 West  
San Juan County, New Mexico



Southland Royalty Company

Marathon Oil Company

PO Box 552, Midland, TX 79702

Mesa Limited Partnership

PO Box 2009, Amarillo, TX 79189

Petrocorp Inc. 18800 Greensport Park Dr, Ste 300 N Atrium, Houston, TX 77060

W M Galloway

3005 Northridge Dr., Suite 1, Farmington, NM 87401

EXHIBIT "B"

OWNERS OF PRODUCTION  
AZTEC # 700 WELL

RONALD S. DAVIS M.D.  
1100 E. LAKE SUITE 140  
TYLER, TX. 75701

MINERALS MANAGEMENT SERVICE  
ROYALTY MANAGEMENT PROGRAM  
P.O. BOX 5810  
DENVER, CO. 80217

SOUTHLAND ROYALTY COMPANY  
P.O. BOX 4289  
FARMINGTON, NM. 87499-4289