

**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. 13986
ORDER NO. R-12851**

**APPLICATION OF PARALLEL PETROLEUM CORPORATION FOR THE ADOPTION
OF SPECIAL RULES AND REGULATIONS FOR THE WALNUT CREEK-
WOLFCAMP GAS POOL, CHAVES COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 20, 2007, at Santa Fe, New Mexico, before Examiners David K. Brooks Esq. and William V. Jones.

NOW, on this 17th day of December, 2007, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

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

(2) Parallel Petroleum Corporation ("applicant" or "Parallel"), requests the Division adopt Special Pool Rules and Regulations for the Walnut Creek-Wolfcamp Gas Pool (97631) to provide for the following:

(a) to authorize within a standard 320-acre spacing unit the drilling and simultaneous dedication of a maximum of two horizontally drilled Wolfcamp gas wells; and

(b) exemption from the well density requirements of Rule 104.D to allow these two horizontal wells.

(3) The Walnut Creek-Wolfcamp Gas Pool (97631) was created with effective date November 1, 2007 in Division Order No. R-12831, and currently covers the following lands in Chaves County, New Mexico:

Township 15 South, Range 25 East, NMPM

Section 16: All

Section 17: S/2

(4) Parallel completed the discovery well in this Pool as a Wolfcamp gas well on July 11, 2007. The Swale State Com 1525-16 Well No. 1 (API No. 30-005-63886) was drilled

horizontally and is located in the N/2 S/2 of Section 16 so as to drain both quarter sections. It was first drilled vertically in Unit L and logged; then a kickoff plug was set, and the well drilled horizontally to a terminus in Unit I.

(5) Parallel is the only operator currently drilling and producing wells in this pool.

(6) No other party entered an appearance or otherwise opposed this application.

(7) Parallel intends to drill a new horizontal wellbore in the S/2 S/2 of Section 16 within the same standard 320-acre spacing unit as the discovery well. Parallel has obtained approval of its APD to drill the Swale State Com 1525-16 No. 2 (API No. 30-005-63924).

(8) Division records show that on September 11, 2007, the Division approved Parallel's application to simultaneously dedicate two horizontally drilled gas wells to the S/2 of Section 16 (Administrative Order SD-200723).

(9) Division Rule 111 establishes the rules and regulations for the drilling of directional wells, and by definition includes "horizontal" wells, but does not limit the number of horizontal wells that can be drilled within a Project Area. Instead Rule 111 refers to a project area "that is enclosed by the outer boundaries of a spacing unit or a combination of complete spacing units," and incorporates by reference Rule 104 to define a "spacing unit".

(10) Division Rule 104.C(2), applicable to gas wells in the Wolfcamp formation, allows two wells in a 320-acre spacing unit with each well located in a different quarter section of the 320-acre spacing unit. This rule does not specifically address horizontal wells.

(11) At the hearing Parallel presented testimony that demonstrates that:

(a) The portion of the reservoir being depleted by the first horizontal well in a standard 320-acre Wolfcamp gas spacing unit is generally limited to only half of that spacing unit and an additional horizontal well will normally be needed to recover existing gas reserves within that spacing unit.

(b) A second horizontal well drilled similarly to the first horizontal well (length-wise across both quarter sections) should be allowed by Special Pool Rules, in order to recover gas that might otherwise not be recovered and therefore to protect correlative rights and prevent waste.

(c) Neither of the two horizontal wells will adversely affect the other or the correlative rights of the offsetting interest owners.

(d) Horizontal wells with multistage, "slick-water" hydraulic fracture treatments, drilled in an east-west direction, are necessary and preferable to

drilling multiple vertical wells in order to economically recover gas from the Wolfcamp formation within and around the Walnut Creek-Wolfcamp Gas Pool.

(e) Parallel has provided written notice of this hearing and of this application to all operators within this pool and within 1 mile of the pool boundaries and otherwise to all "affected parties" as defined in Division Rule 1210A(4).

(f) The Walnut Creek-Wolfcamp Gas Pool is part of what can be considered the Artesia Area Wolfcamp Horizontal Gas play which extends in a northeast to southwest swath from Township 14 South, Range 26 East to Township 19 South, Range 21 East.

(g) The evidence presented in support of allowing two horizontal gas wells in the Walnut Creek-Wolfcamp Gas Pool could also be used to justify allowing this same relief elsewhere within the Artesia Area Wolfcamp Horizontal Gas Play area.

(12) The Division encourages one or more operators within this Area to provide the proper notice and present a case for approval of these same rule exceptions for all Wolfcamp gas development within this Artesia Area Wolfcamp Horizontal Gas Play.

(13) Parallel's application for special pool rules for the Walnut Creek-Wolfcamp Gas Pool to allow two horizontal gas wells per spacing unit, both wells optionally drilled into both quarter sections, and thereby allow an exception to Division Rule 104D, should be approved in order to prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) The application of Parallel Petroleum Corporation is hereby granted, and the following Special Pool Rules for the Walnut Creek-Wolfcamp Gas Pool (97631) are hereby promulgated:

**SPECIAL RULES
FOR THE
WALNUT CREEK-WOLFCAMP GAS POOL**

RULE 1; Each well completed or re-completed in the Walnut Creek-Wolfcamp Gas Pool shall be spaced, drilled, operated, and produced in accordance with Division Rules or as otherwise specified in the Special Rules hereinafter set forth.

RULE 2. Up to two horizontal wells may be drilled and may simultaneously produce within a standard 320-acre gas spacing unit and both be dedicated to that unit. Both of these wells may be completed in both quarter sections.

RULE 3. Each horizontal well shall be drilled so that no portion of the

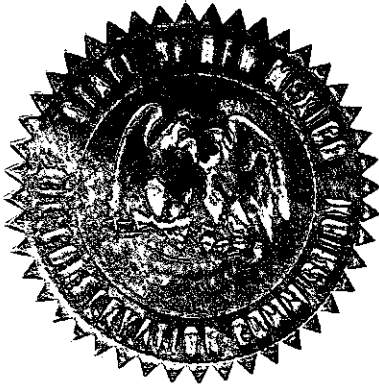
well is nearer than 660 feet to any boundary of the spacing unit while within the vertical boundaries of this pool.

RULE 4. Exceptions to these Special Rules shall be allowed in accordance with Division Rules.

(2) The effective date for these Special Pool Rules shall be November 1, 2007.

(3) 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".

MARK E. FESMIRE, P.E.
Director