

ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
- Engineering Bureau -
1220 South St. Francis Drive, Santa Fe, NM 87505



*RKI Expl & Prod
Pinnacle St #16
5692*

ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

[NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] TYPE OF APPLICATION - Check Those Which Apply for [A]

[A] Location - Spacing Unit - Simultaneous Dedication

☒ NSL ☐ NSP ☐ SD

Check One Only for [B] or [C]

[B] Commingling - Storage - Measurement

☐ DHC ☐ CTB ☐ PLC ☐ PC ☐ OLS ☐ OLM

[C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery

☐ WFX ☐ PMX ☐ SWD ☐ IPI ☐ EOR ☐ PPR

[D] Other: Specify _____

[2] NOTIFICATION REQUIRED TO: - Check Those Which Apply, or ☐ Does Not Apply

[A] ☐ Working, Royalty or Overriding Royalty Interest Owners

[B] ☒ Offset Operators, Leaseholders or ~~Surface Owner~~

All Common Acreage

[C] ☐ Application is One Which Requires Published Legal Notice

[D] ☐ Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office

[E] ☐ For all of the above, Proof of Notification or Publication is Attached, and/or,

[F] ☐ Waivers are Attached

[3] SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.

[4] CERTIFICATION: I hereby certify that the information submitted with this application for administrative approval is **accurate** and **complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Kellahin & Kellahin
Attorneys At Law
706 Gonzales Rd.
Santa Fe, NM 87501

Signature

Title

Date

e-mail Address

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KELLAHIN & KELLAHIN
Attorney at Law

W. THOMAS KELLAHIN
706 GONZALES ROAD
SANTA FE, NEW MEXICO 87501

TELEPHONE 505-982-4285
FACSIMILE 505-982-2047
TKELLAHIN@COMCAST.NET

September 18, 2006

HAND DELIVERED

Mr. Mark Fesmire, PE, Director
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Administrative Application of RKI Exploration
& Production, LLC for approval of a unorthodox well
location for its Pinnacle State Well No. 16, Unit N,
Footage: 1152 FSL and 2528 FWL
Dedication: 40-acres being the SE/4SW/4 of Section 36
T22S, R28E, Eddy County New Mexico

Dear Mr. Fesmire:

On behalf of RKI Exploration & Production, LLC, please find enclosed our referenced application that is being filed in accordance with Division Rule 104.D (2)(b)). This location crowds towards the northeast exterior corner of this 40-acre spacing unit. All the offsetting 40-acre tracts towards which this location encroaches are part of the same State of New Mexico oil & gas lease that includes the subject 40-acre tract.

Very truly yours,


W. Thomas Kellahin

CC: RKI Exploration & Production, LLC
Attn: Chip Taylor

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

**IN THE MATTER OF THE ADMINISTRATIVE
APPLICATION OF RKI EXPLORATION & PRODUCTION, LLC
FOR APPROVAL OF AN UNORTHODOX WELL LOCATION
EDDY COUNTY, NEW MEXICO**

ADMINISTRATIVE APPLICATION

Comes now RKI EXPLORATION & PRODUCTION, LLC ("RKI") and by and through its attorneys, Kellahin & Kellahin, and in accordance with Division General Rule 104.F, applies to the New Mexico Oil Conservation Division ("Division") for approval of an unorthodox oil well location for any formation from the surface to the base of the Bone Springs spaced on 40-acre units for its Pinnacle State Well No. 16, a proposed Delaware/Bone Springs oil well to be located 1152 feet from the South line and 2528 feet from the West line (Unit N) of Section 36, T22S, R28E, Eddy County New Mexico and dedicated to a standard 40-acre oil spacing unit consisting of the SE/4SW/4 of this section for production from the Herradura Ben-Delaware Pool.

In support, RKI states:

1. RKI is the operator for the offsetting Delaware wells towards which the subject wellbore will encroach. RKI and its affiliated entities own a 100% W.I. in the 40 acre units upon which this unorthodox location encroaches (Units J, K, and O). State of New Mexico Lease V-3479-1 underlies the subject unit and the three referenced offset 40-acre units.
2. The subject well, Pinnacle State Well No. 16 will be located within the same 40-acre spacing unit that currently contains the Pinnacle State Well No. 12 and will share the oil allowable with that well. See locator map attached as Exhibit "A"

3. The subject Pinnacle State Well No. 16 is to be drilled to the base of the Bone Springs but completed in the Delaware formation of the Herradura Bend-Delaware Pool at an unorthodox location 1152 FSL and 2528 FWL of Section 36 within a 40-acre spacing unit consisting of the SE/4SW/4 of Section 36 to be dedicated to this well. **See form C-102 and C-101 attached as Exhibit "B" and Exhibit "C"**
4. The original standard location of 990' FSL and 2,310' FWL was moved approximately 200' to the north and east due in part to potentially recover *reserves* which would not otherwise be recovered at a standard location or in the wells currently producing in the subject unit and *the 3 offset* units, making it an unorthodox location.
5. All of the offsetting wells were drilled through the Bone Springs formation but only produce from the Delaware formation.

TECHNICAL EVIDENCE

6. RKI's geologist and petroleum engineer have concluded that the 4 existing wells, the Pinnacle Wells 3, 5, 12, and 13 will drain approximately 20-acre each thus leaving an area of the reservoir in-between these wells that justifies this additional well. See attached Exhibit "D" and "E"

NOTIFICATION AND OWNERSHIP

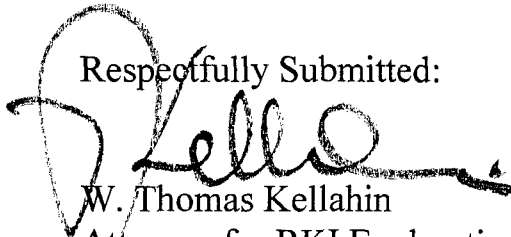
7. The working interest owners will continue to share the costs and proceeds in the existing 40-acre spacing unit within this portion Section 36 on the same basis for the offsetting 40-acre spacing units towards which this well encroaches.
8. The well does not encroach upon any portion of Section 36 with a differing working overriding royalty or royalty interest under the lease or the joint operating agreement.
9. While notice is not required by Division Rule, as a courtesy, notice has been sent to the State Land Office. See Exhibit "F"

CONCLUSION

10. Approval of this application will afford the owners and the applicant the opportunity to produce their just and equitable share of the hydrocarbons in the Delaware and Bone Springs formations, will promote the orderly development in this area, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

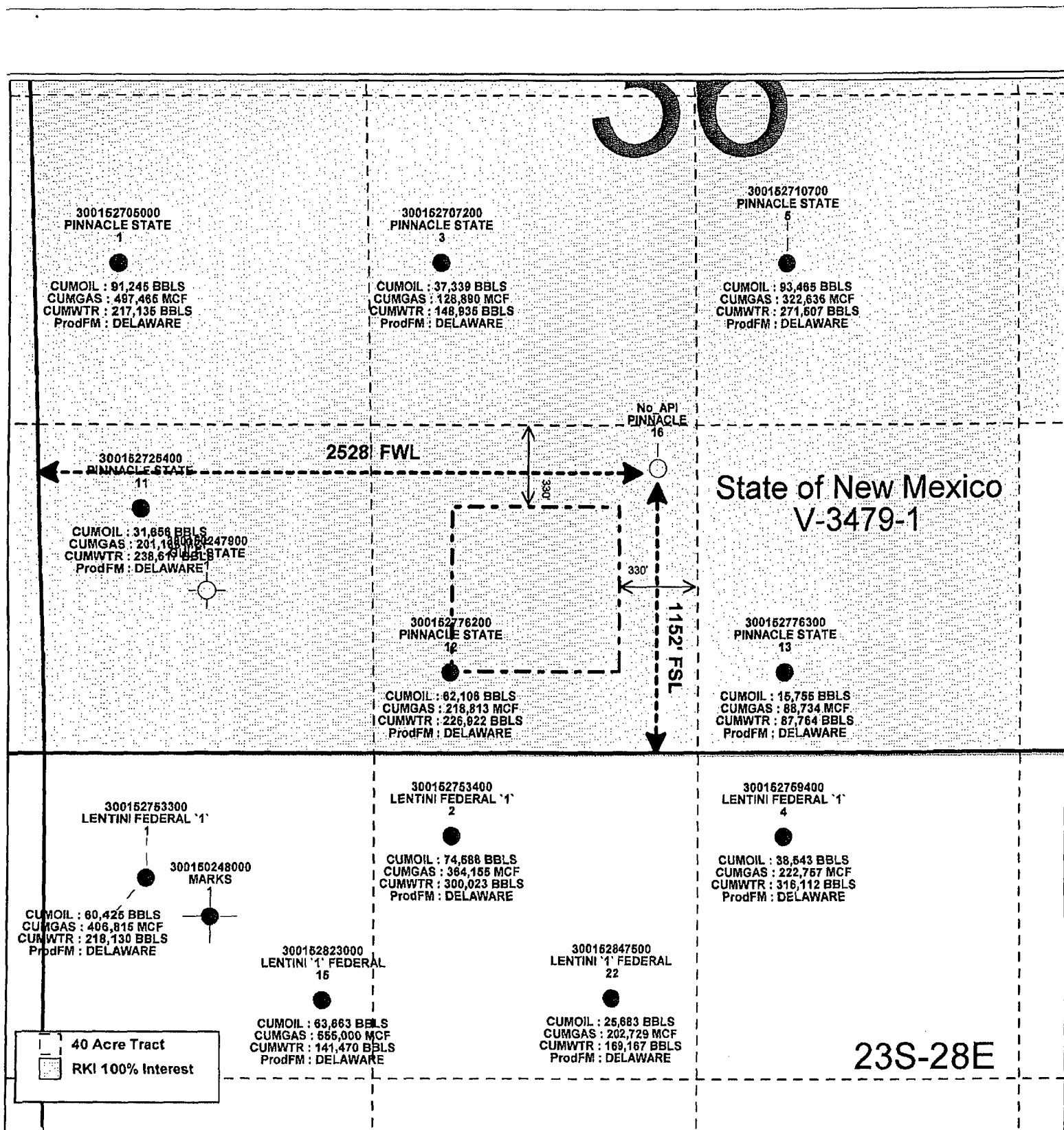
WHEREFORE, Applicant requests that this application be approve by the Division.

Respectfully Submitted:

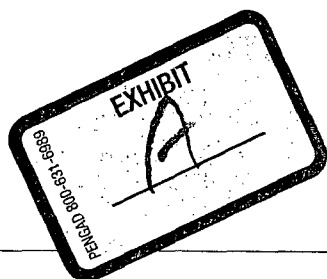
A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name.

W. Thomas Kellahin

Attorney for RKI Exploration & Production, LLC



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RKI Exploration & Production

Pinnacle State 16

Section 36-22S-28E

Eddy Co., NM

9-18-2007

DISTRICT I

1625 N. French Dr., Hobbs, NM 88240

DISTRICT II

1301 W. Grand Avenue, Artesia, NM 88210

DISTRICT III

1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV

1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102

Revised October 12, 2005

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

1220 South St. Francis Dr.
Santa Fe, New Mexico 87505☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number <u>35838</u> 30-015- 25767	Pool Code 30670	Pool Name <u>East</u> HERRADURA BEND; DELAWARE, EAST
Property Code .	Property Name PINNACLE STATE	Well Number 16
OGRID No. 246289	Operator Name RKI EXPLORATION & PRODUCTION	Elevation 3085'

Surface Location

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	36	22 S	28 E		1152	SOUTH	2528	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
Dedicated Acres 40	Joint or Infill I	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief, and that this organization either owns a working interest or unleased mineral interest in the land including the proposed bottom hole location pursuant to a contract with an owner of such a mineral or working interest, or to a voluntary pooling agreement or a compulsory pooling order heretofore entered by the division. <u>Brian Wood</u> 9-3-07 Signature Date BRIAN WOOD Printed Name
	SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief. JULY 29 2007 Date Surveyed <u>Gary L. Jones</u> Signature Professional Surveyor W.O. 11833 Certificate No. Gary L. Jones 7977
	EXHIBIT B 8889-153-000-0183
	BASIN SURVEYS

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Form C-101
May 27, 2004

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Submit to appropriate District Office

☐ AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address RKI EXPLORATION & PRODUCTION, LLC 3817 NW EXPRESSWAY, SUITE 950, OKLAHOMA CITY, OK 73112		² OGRID Number 246289
		³ API Number 30 - 015-
⁴ Property Code	⁵ Property Name PINNACLE STATE	⁶ Well No. 16
⁹ Proposed Pool 1 HERRADURA BEND; DELAWARE, EAST		¹⁰ Proposed Pool 2

⁷ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
N	36	22 S	28 E		1152	SOUTH	2528	WEST	EDDY

⁸ Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Additional Well Information

¹¹ Work Type Code N	¹² Well Type Code O	¹³ Cable/Rotary ROTARY	¹⁴ Lease Type Code S	¹⁵ Ground Level Elevation 3,085'
¹⁶ Multiple N	¹⁷ Proposed Depth 7,120'	¹⁸ Formation BONE SPRING	¹⁹ Contractor	²⁰ Spud Date UPON APPROVAL
Depth to Groundwater >50'		Distance from nearest fresh water well >1,000'		Distance from nearest surface water 10'
Pit: Liner: Synthetic <input checked="" type="checkbox"/> 12 mils thick Clay <input type="checkbox"/> Pit Volume: _____ bbls Drilling Method: _____ Closed-Loop System <input type="checkbox"/> 25,000 bbls Fresh Water <input checked="" type="checkbox"/> Brine <input type="checkbox"/> Diesel/Oil-based <input type="checkbox"/> Gas/Air <input type="checkbox"/>				

²¹ Proposed Casing and Cement Program

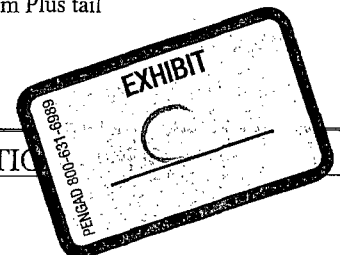
Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	54.5#	40'	100	SURFACE
12-1/4"	9-5/8"	36#	560'	250	SURFACE
7-7/8"	5-1/2"	17#	7,120'	945	SURFACE

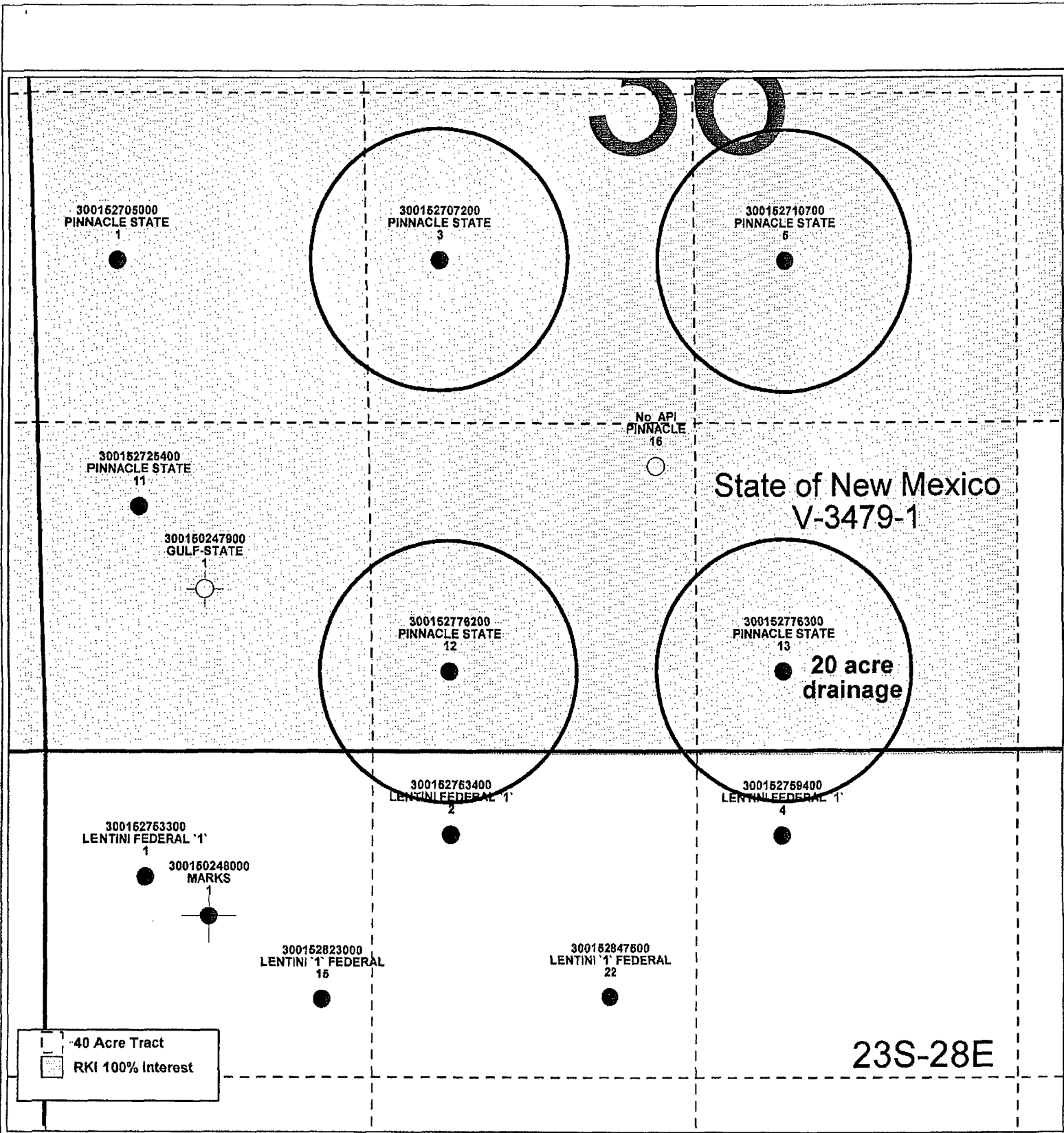
²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

1. Drill 17-1/2" hole to 40'. Set 40' of 13-3/8" conductor casing. Cement to surface with Redi-Mix cement.
2. Drill 12-1/4" hole to 560'. Set 560' of 9-5/8", 36#, J-55, ST&C surface casing. Cement with 50 sacks of Halliburton Light Premium Plus with 2% calcium chloride and 1/4 #/sack Poly-E-Flake lead (yield = 1.90), and 200 sacks of Halliburton Premium Plus with 2% calcium chloride tail (yield = 1.35). Volume includes 100% excess to bring cement to surface.
3. Drill 7-7/8" hole to 7,120'. Set 7,120' of 5-1/2" production casing. Cement to surface in two stages (DV tool @ ~4,000'). Stage 1, cement with 175 sacks of Interfill C cement lead (yield = 2.47) and 300 sacks of 50/50 Poz Premium cement with 0.5% LAP-1, 0.4% CFR-3, 3 #/sack salt, 0.1% HR-7, and 0.25 #/sack D-Air 3000 tail (yield = 1.30). Stage 2, cement with 370 sacks of Interfill C cement lead (yield = 2.47) and 100 sacks Premium Plus tail (yield = 1.33).

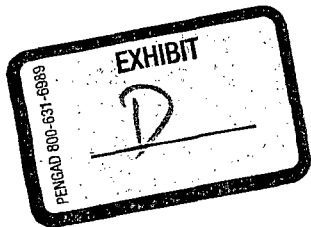
See attachment for schematic of 3,000 psi BOP equipment.

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief. I further certify that the drilling pit will be constructed according to NMOCD guidelines <input checked="" type="checkbox"/> a general permit <input type="checkbox"/> or an (attached) alternative OCD-approved plan <input type="checkbox"/>		OIL CONSERVATION	
Printed name: BRIAN WOOD		Approved by:	
Title: CONSULTANT		Title:	
E-mail Address: brian@permitswest.com		Approval Date:	
Date: 9-3-07		Expiration Date:	
Phone: (505) 466-8120		Conditions of Approval Attached <input type="checkbox"/>	





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RKI Exploration & Production

Pinnacle State 16

Section 36-22S-28E

Eddy Co., NM

9-18-2007

Pinnacle 16

Lease	H (FT)	Porosity	Sw	Drainage (ACRES)	Bo (RB/STB)	R.F. (%)	VOLUMETRIC EUR (MBO)	HIST. CUM. (MBO)	RATE/TIME EUR MBO
Pinnacle 3	117	0.15	0.62	20	1.128	13	120,980	37,504	52,725
Pinnacle 5	65	0.19	0.57	20	1.128	13	94,962	94,119	152,627
Pinnacle 12	56	0.18	0.60	20	1.128	13	72,100	62,379	75,630
Pinnacle 13	66	0.18	0.63	20	1.128	13	78,222	16,137	39,159
TOTAL							366,264	210,139	320,141

The Pinnacle 3, 5, 12 and 13 have volumetric reserves of 366 MBO based on 20 acre spacing. The historical cumulative oil production for the same wells is 210 MBO. From Rate/Time analysis, the four wells will produce another 110 MBO over a time frame of approximately 40 years. The four wells calculate a total EUR of 320 MBO from Rate/Time analysis showing a drainage area between 15 and 20 acres. The additional well will attempt to drain the remaining 20 acres.

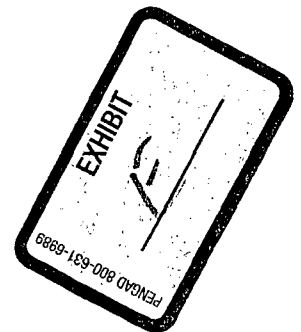


EXHIBIT "F"

Commissioner of Public Lands for New Mexico
P. O. Box 1148
Santa Fe, New Mexico 87504-1148

Brooks, David K., EMNRD

From: David Catanach [drcatanach@netscape.com]
Sent: Tuesday, October 02, 2007 1:12 PM
To: Brooks, David K., EMNRD
Cc: ctaylor@rkixp.com; tkellahin@comcast.net
Subject: Pinnacle State Well No. 16

Mr. Brooks:

An unorthodox location request for the RKI Exploration & Production, LLC ("RKI) Pinnacle State Well No. 16 was filed by Mr. Tom Kellahin on or about September 18, 2007 (Administrative Application Reference No. pTDS0726838891). In that application, Mr. Kellahin requested unorthodox location approval for all formations spaced on 40 acres from the surface to the base of the Bone Spring formation within the SE/4 SW/4 of Section 36, Township 22 South, Range 28 East, NMPM, Eddy County, New Mexico. It has come to the attention of RKI that the proposed well is located within one mile of the South Culebra Bluff-Bone Spring Pool, which is currently spaced on 80-acres pursuant to Division Order No. R-6139, as amended. Rather than amending the present application, and in the hope of obtaining an expedited order, RKI requests that the Bone Spring formation be removed from consideration in this application. The primary target within the subject well remains the Delaware formation. It is RKI's intent to drill the well to a depth sufficient to test the Bone Spring formation, however, in the event of a Bone Spring completion, a subsequent application will be filed to obtain Division approval for the Bone Spring unorthodox location.

Thank you for your consideration. If you should have any questions, please contact me at (505) 471-2827 or (505) 690-9453.

Regards,

David Catanach

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This inbound email has been scanned by the MessageLabs Email Security System.

10/2/2007