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RECEIVED

OCT 18 2004

OIL CONSERVATION
DIVISION

October 14, 2004

David Catanach
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13,351/Application of Edge Petroleum Exploration
Company/Dos Hermanos-Morrow Gas Pool

Dear Mr. Catanach:

At the hearing on this matter, held on October 7th, V-F Petroleum, Inc.'s witness, Mr. Mazullo, stated the following:

1. The well proposed by V-F in the NW¼ of Section 22 is a Strawn test, and thus is inapplicable to Edge's application; and
2. V-F opposes Edge's application because V-F simply wants to comply with existing pool rules.

Enclosed as Exhibit A is a portion of V-F's APD for its Hale Fed. Com. Well No. 3, in the NW¼ of Section 22. The well is permitted as a Morrow test in the Dos Hermanos-Morrow Gas Pool. Thus, Mr. Mazullo is incorrect about that well.

More importantly, the Section 22 well (i) is at an unorthodox bottomhole location (950' FNL & 760' FWL), and (ii) is an infill well. Enclosed as Exhibit B is Division Order No. R-11692, which approved V-F's request for exceptions to the rules for the Dos Hermanos-Morrow Gas Pool to (a) allow an unorthodox Morrow well location, and (b) permit a second well in the section. Exhibit C is the letter application related to the order. Based on the materials submitted to the Division:

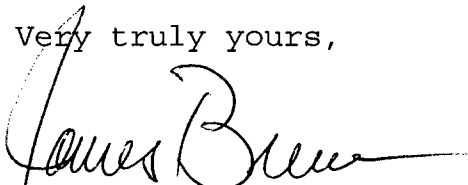
- A. V-F is not content to comply with pool rules when geology dictates otherwise;

- B. V-F has and will seek unorthodox Morrow locations, based on geological considerations, when necessary. This confirms what Mr. Mazullo inferred at the hearing, that the location for the new V-F well now being completed in the SW $\frac{1}{4}$ of Section 21 was selected for geologic considerations. As a result, V-F is not harmed by Edge's anticipated location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 29, because V-F drilled its geologically preferred location; and
- C. V-F believes that Morrow drainage is quite small (on the order of 40 acres), thus requiring infill drilling. Again, based on V-F's own assertions in Case No. 12746, the chances of Edge's anticipated location in the NE $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 29 harming V-F are minimal at most.

As stated at hearing, the rules for the Dos Hermanos-Morrow Gas Pool should be amended to conform to statewide rules (except to retain 640 acre spacing). V-F's data confirms this.

Edge requests that the Division take administrative notice of Case No. 12746.

Very truly yours,



James Bruce

Attorney for Edge Petroleum Exploration Company

cc: William F. Carr w/encl.



United States Department of the Interior

BUREAU OF LAND MANAGEMENT

Carlsbad Field Office
620 E. Greene St.
Carlsbad, NM 88220-6292

In Reply Refer To:
3162.4 (080)
NM-06784

SEP 22 2003



V-F Petroleum Inc.
P. O. Box 1889
Midland, TX 79702

Gentlemen:

Your Application for Permit to Drill (APDs), for the following well has expired because drilling has not commenced within one year of the approval date as stated in the General Requirements for Oil and Gas Operations on Federal Leases.

NM-06784 Hale Federal Cor #3 1450'S & 660'W Sec. 22, T.20S, R.30E
APD approved on 9/14/01, last approved extension expired on 9/14/03

A recent resubmission of the APD was received on September 17, 2003, at the same location.

Sincerely,

/s/ Joe G. Lara

FOR Mary Jo Rugwell
Assistant Field Manager
Lands & Minerals

bcc:
NM (062,L. Askwig)
OCD-Artesia
I&E-CFO



REVISED

Previously approved: 9/14/01

1 year extension: to 9/14/03

Form 3160-3
(August 1999)

N.M. Oil Cons. Div-Dist. 2

1301 W. Grand Avenue

Artesia, NM 88210

FORM APPROVED
OMB No. 1004-0136
Expires November 30, 2000

RECEIVED

OCT 29 2003

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT

APPLICATION FOR PERMIT TO DRILL OR REENTER

OCD-ARTESIA

1a. Type of Work: ☒ DRILL☐ REENTER

R-111-POTASH

1b. Type of Well: ☐ Oil Well ☒ Gas Well ☐ Other☐ Single Zone☐ Multiple Zone

2. Name of Operator

V-F Petroleum, Inc.

SUBJECT TO LIKE

3a. Address

P.O. Box 1889 Midland, TX 79702

APPROVAL BY STATE

432-687-0008

4. Location of Well (Report location clearly and in accordance with any State requirements. *)

At surface 1450' FSL & 660' FWL

At proposed prod. zone 950' FNL & 760' FWL

14. Distance in miles and direction from nearest town or post office*

20 miles east of Carlsbad, NM

15. Distance from proposed*

location to nearest

property or lease line, ft.

(Also to nearest drig. unit line, if any) 660' (760")

16. No. of Acres in lease

280

17. Spacing Unit dedicated to this well

640

18. Distance from proposed location*

to nearest well, drilling, completed,

applied for, on this lease, ft.

1000'

19. Proposed Depth

12,300'

20. BLM/BIA Bond No. on file

NM-2246

21. Elevations (Show whether DF, KDB, RT, GL, etc.)

3268' GL

22. Approximate date work will start*

January 15, 2004

23. Estimated duration

6 weeks

24. Attachments

CAPITAN CONTROLLED WATER BASIN

The following, completed in accordance with the requirements of Onshore Oil and Gas Order No. 1, shall be attached to this form:

1. Well plat certified by a registered surveyor.

2. A Drilling Plan.

3. A Surface Use Plan (if the location is on National Forest System Lands, the SUPO shall be filed with the appropriate Forest Service Office).

4. Bond to cover the operations unless covered by an existing bond on file (see Item 20 above).

5. Operator certification.

6. Such other site specific information and/or plans as may be required by the authorized officer.

25. Signature

Name (Printed/Typed)

George R. Smith

Date

9/17/03

Title

Agent for: V-F Petroleum, Inc.

Approved by (Signature)

/s/ Linda S. C. Rundell

Name (Printed/Typed)

/s/ Linda S. C. Rundell

Date

22 OCT 2003

Title

STATE DIRECTOR

Office

NM STATE OFFICE

Application approval does not warrant or certify that the applicant holds legal or equitable title to those rights in the subject lease which would entitle the applicant to conduct operations thereon.

Conditions of approval, if any, are attached.

APPROVAL FOR 1 YEAR

Title 18 U.S.C. Section 1001 and Title 43 U.S.C. Section 1212, make it a crime for any person knowingly and willfully to make to any department or agency of the United States any false, fictitious or fraudulent statements or representations as to any matter within its jurisdiction.

*(Instructions on reverse)

R-11692

Lease Responsibility Statement: V-F Petroleum, Inc. accepts all applicable terms, conditions, stipulations, and restrictions concerning operations conducted on the leased land or portion thereof.

APPROVAL SUBJECT TO
GENERAL REQUIREMENTS
AND SPECIAL STIPULATIONS
ATTACHED
George R. Smith, agent

Block I

1625 N. French Dr., Hobbs, NM 88240

Block II

611 South First, Arroyo, NM 88218

Block III

1000 Elb Arroyo Rd., Aztec, NM 87410

Block IV

2040 South Pacheco, Santa Fe, NM 87305

State of New Mexico
Energy, Minerals & Natural ResourcesOIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

Form C-102

Revised March 17, 1999

Submit to Appropriate District Office

State Lease - 4 Copies

Fee Lease - 3 Copies

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number		Well Code		Well Name Dos Hermanos Morrow	
Property Code		Property Name HALE FEDERAL COM		Well Number 3	
OGRID No.		Operator Name V-F PETROLEUM INC.		Elevation 3268.	

" Surface Location

UL or lot no.	Section	Township	Range	Lot No.	Feet from the	North/South line	Feet from the	East/West line	County
L	22	20-S	30-E		1450	SOUTH	660	WEST	EDDY

" Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot No.	Feet from the	North/South line	Feet from the	East/West line	County
D	22	20-S	30-E		950	NORTH	760	West	Eddy

Dedicated Acres 640	Joint or Infill	Consolidation Code Com	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

	Bottom Hole Location			" OPERATOR CERTIFICATION I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief. <i>George R. Smith</i> Signature George R. Smith, agent For: Printed Name V-F Petroleum, Inc. Date June 27, 2001 Date
	" SURVEYOR CERTIFICATION I hereby certify that the well location shown on this plat was obtained 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. JUNE 5, 2001 Date of Survey Signature and Seal of Surveyor 			

APPLICATION FOR DRILLING

V-F PETROLEUM, INC.

Hale Federal Com., Well No. 3

Surface: 1450' FSL & 660' FWL, Sec. 22-T20S-R30E

Production: 950' FNL & 760' FWL, Sec. 22-T20S-R30E

Eddy County, New Mexico

Lease No.: NM-06784

(Development Well)

In conjunction with Form 3160-3, Application for Permit to Drill subject well, V-F Petroleum, Inc. submits the following items of pertinent information in accordance with BLM requirements:

1. The geologic surface formation is recent Permian with quaternary alluvium and other surficial deposits.
2. The estimated tops of geologic markers are as follows:

Rustler	425'	Wolfcamp Limestone	10,293'
Yates	1,778'	Middle Strawn Limestone	10,953'
Capitan Reef	2,319'	Atoka	11,243'
Delaware	3,653'	Morrow	11,688'
Bone Spring	6,450'	Lower Morrow	12,168'
Wolfcamp	10,124'	T.D	12,300'

3. The estimated depths at which water, oil or gas formations are anticipated to be encountered:

Water: Surface water between 100' - 300'.

Oil: None expected.

Gas: Possible in the Strawn below 10,953', Atoka below 11,243' and the Morrow below 11,688'.

4. Proposed Casing Program:

HOLE SIZE	CASING SIZE	WEIGHT	GRADE	JOINT	SETTING DEPTH	QUANTITY OF CEMENT	
20"	16"	65.0#	H-40	ST&C	400'	Circ. 450 sx HL & 150 "C" to surface.	WITNESS
15"	11 3/4"	42.0#	H-40	ST&C	750'		
15"	11 3/4"	47.0#	K-55	ST&C	1,500' 1745'	Circ. 1000 sx HL & 150 "C" to surface.	WITNESS
10 5/8"	8 5/8"	24.0#	K-55	ST&C	1,950'		
10 5/8"	8 5/8"	32.0#	K-55	ST&C	3,900' 3600'	Circ. 900 sx HL & 300 "C" to surface.	
7 7/8"	5 1/2"	17.0#	N-80	LT&C	6,150'		
7 7/8"	5 1/2"	20.0#	N-80	LT&C	12,300'	750 sx "H" returned to 8,000'.	

NOTE: Deviation Requirements: Commencing at 4,500', Kick off and build angle at 3 degrees per 100 feet. Drill and build curve section at 19 degrees to 9,500'. Natural drop section to near vertical at TD. See Exhibit "F".

5. Proposed Control Equipment: A 12" 5000 psi wp Shaffer Type LWS Double Gate BOP will be installed on the 11 3/4" casing. Casing and BOP will be tested according to Onshore Oil & Gas Order #2, not to exceed maximum surface estimated pressures of 2700 psi wp, before drilling out with 10 5/8" and will be tested weekly. See Exhibit "E".

6. MUD PROGRAM:

			MUD WEIGHT	VIS.	W/L CONTROL
	0' - 400'	Fresh water mud:	8.6 - 9.2 ppg	32 - 40	No W/L control
Fresh	400' - 1500'	Brine water mud	10.0 - 10.1 ppg	28 - 29	No W/L control
Fresh	1500' - 3900'	Brine water mud:	10.0 - 10.1 ppg	28 - 29	No W/L control
	3900' - 10,600'	Fresh water mud:	8.3 - 8.4 ppg	28 - 29	No W/L control
	10,600' - 12,300'	Cut Brine mud:	9.8 - 10.0 ppg	36 - 40	W/L cont. 12 - to 6 cc in Morrow

7. Auxiliary Equipment: Blowout Preventer, gas detector, Kelly cock, and stabbing valve.

V-F PETROLEUM, Inc.**Hale Federal Com., Well No. 3****Page 2****8. Testing, Logging, and Coring Program:**

Drill Stem Tests: None.

Logging: T.D. to 3900': GR-DNL-DLL

3900' to Surface: GR-

Coring: None planned

9. No abnormal pressures or temperatures are anticipated. In the event abnormal pressures are encountered the proposed mud program will be modified to increase the mud weight. Estimated maximum BHP = 5412 and Surface Pressure = 2706 with a temperature of 183°.

10. H₂S: None expected.

11. Anticipated starting date: January 15, 2004

Anticipated completion of drilling operations: Approximately 30 - 40 days.

MULTI POINT SURFACE USE AND OPERATIONS PLAN

V-F PETROLEUM INC.

Hale Federal Com., Well No. 3

Surface: 1450' FSL & 660' FWL, Sec. 22-T20S-R30E

Production: 950' FNL & 760' FWL, Sec. 22-T20S-R30E

Eddy County, New Mexico

Lease No.: NM-06784

(Development Well)

This plan is submitted with the Application for Permit to Drill the above described well. The purpose of the plan is to describe the location of the proposed well, the proposed construction activities and operations plan, to be followed in rehabilitating the surface environmental effects associated with the operations.

1. EXISTING ROADS:

- A. Exhibit "A" is a portion of a USGS/BLM Topo map showing the location of the proposed well as staked. The well site location is approximately 17 road miles northeast of Carlsbad, New Mexico. Traveling east from Carlsbad there will be approximately 17 miles of paved highway and 2.8 miles of gravel ranch/oilfield roads.
- B. Directions: Travel east from Carlsbad, NM on U.S. Highway 62/180 for approximately 17 miles between MM# 54 & 55, .27 mile east of the NM Highway 31 turnoff. Turn north at a V-F Petroleum sign onto a good gravel road paralleling a power line. Continue north for 1.6 miles; then NE for .5 mile; then north for .4 mile to a bend in the road 500 feet south of the Hale Fed. Com., Well No. 2 well pad. The start of the proposed access road is staked at this bend on the west side and will run north for 600 feet parallel to a two track beside a PNM gas pipeline. The proposed access road will then turn west for approximately 380 feet to the southeast corner of the proposed well site.

2. PLANNED ACCESS ROAD:

- A. Length and Width: The access road will be constructed to a width of 12 feet and will be approximately 1000 feet in length. The proposed access road is color coded red on Exhibits "A".
- B. Construction: The proposed access road will be constructed by grading and topping with compacted caliche and will be properly drained.
- C. Turnouts: One turnout may be required at the midpoint, increasing the road width to 20 feet for passing.
- D. Culverts: None required.
- E. Cuts and Fills: None required except the leveling of small dunes.
- F. Gates, Cattle guards: None required.
- G. Off Lease R/W: None required.

3. LOCATION OF EXISTING WELLS:

- A. Existing wells within a two-mile radius are shown on Exhibit "C".

V-F Petroleum Inc.
Hale Federal Com., Well No. 3
Page 2

4. LOCATION OF EXISTING AND/OR PROPOSED FACILITIES;

- A. There are gas production facilities on the lease at this time. The Hale Fed. Com., #2 is located 1650' FSL & 1800' FWL, Sec. 22-T20S-R30E is a producing gas well
- B. If the well proves to be commercial, the necessary production facilities, gas production-process equipment and tank battery, if required, will be installed on the drilling pad. A 4" O.D. grade J55 steel line with a test to 250#, to carry a maximum pressure of 125 psi, will be run on the surface approximately 800 feet east, parallel to the proposed access road, to the PNM pipeline, if PNM can handle the gas. A Sundry Report will be submitted for a line if the above is not feasible.

5. LOCATION AND TYPE OF WATER SUPPLY:

- A. It is planned to drill the proposed well with fresh water that will be obtained from private or commercial sources and will be transported over the existing and proposed access roads.

6. SOURCE OF CONSTRUCTION MATERIALS:

- A. Caliche for surfacing the proposed access road and well site pad will be obtained on location, if available, or from a Federal pit to be cleared in the NE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 27-T20S-R30E. No surface materials will be disturbed except those necessary for actual grading and leveling of the drill site and access road.

7. METHODS OF HANDLING WASTE DISPOSAL:

- A. Drill cuttings will be disposed of in the reserve pits.
- B. Drilling fluids will be allowed to evaporate in the reserve pits until the pits are dry.
- C. All pits will be fenced with normal fencing materials to prevent livestock and wildlife from entering the area.
- D. Water produced during operations will be collected in tanks until hauled to an approved disposal system, or a separate disposal application will be submitted to the BLM for approval.
- E. Oil produced during operations will be stored in tanks until sold.
- F. Current laws and regulations pertaining to the disposal of human waste will be complied with.
- G. Trash, waste paper, garbage and junk will be contained in trash bins to prevent scattering and will be removed for deposit in an approved sanitary landfill within 30 days after finishing drilling and/or completion operations.

8. ANCILLARY FACILITIES:

- A. None required.

V-F Petroleum Inc.
Hale Federal Com., Well No. 3
Page 3

9. WELL SITE LAYOUT:

- A. Exhibit "D" shows the relative location and dimensions of the well pad, reserve pits, and major rig components.
- B. Mat Size: 175' X 290', plus 110' X 120' reserve pits. The pits will be on the northeast.
- C. Cut & Fill: A 3 - 4 foot cut on the northwest with fill to the south and east.
- D. The surface will be topped with compacted caliche and the reserve pits will be plastic lined.

10. PLANS FOR RESTORATION OF THE SURFACE:

- A. After completion of drilling and/or completion operations, all equipment and other material not required for operations will be removed. Pits will be filled and the location cleaned of all trash and junk to leave the well site in an aesthetically pleasing a condition as possible
- B. Any unguarded pits containing fluids will be fenced until they are filled.
- C. If the proposed well is non-productive, all rehabilitation and/or vegetation requirements of the Bureau of Land Management will be complied with and will be accomplished as expeditiously as possible. All pits will be filled and leveled as soon as they are dry enough to work after abandonment.

11. OTHER INFORMATION:

- A. Topography: The proposed well site and access road is located on the south side of an east/west running hill. The location has a southeasterly slope of 3 - 4% from an elevation of 3268'.
- B. Soil: The topsoil at the well site is a moderately dark brown colored, weakly calcareous soil with caliche possible below four feet. The soil is of the Pajarito-Dune land complex Soils Series.
- C. Flora and Fauna: The vegetation cover is a sparse to fair grass cover of three-awn and other miscellaneous native grasses along with plants of mesquite, yucca, creosote bush, sage, shinnery oak brush, broomweed, cacti and miscellaneous weeds and wildflowers. The wildlife consists of rabbits, coyotes, rattlesnakes, lizards, dove, quail and other wildlife typical of the semi-arid desert land.
- D. Ponds and Streams: None except potash disposal ponds 1 - 1.5 miles to the south.
- E. Residences and Other Structures: None, but existing oil field facilities.
- F. Land Use: Cattle grazing and potash mines.
- G. Surface Ownership: The proposed well site and access road are on Federal surface.
- H. There is no evidence of archaeological, historical or cultural sites on the proposed 400' X 400' site and proposed access road right of way. Archaeological Survey Consultants, P. O. Box D, Roswell, NM 88202, are conducting an archaeological survey and their report will be submitted to the appropriate government agencies.

V-F Petroleum Inc.
Hale Federal Com., Well No. 3
Page 4

12. OPERATOR'S REPRESENTATIVE:

- A. The field representative responsible for assuring compliance with the approved surface use and operations plan is as follows:

Tom Beall
V-F Petroleum Inc.
P.O. Box 1889
Midland, TX 79702
Office Phone: (432) 687-0008

Larry Brazile
V-F Petroleum, Inc.
P.O. Box 1889
Midland, TX 79702
Office Phone: (432) 687-0008

13. CERTIFICATION:

I hereby certify that I have inspected the proposed drill site and access route; that I am familiar with the conditions which presently exist; that the statements made in the plan are, to the best of my knowledge, true and correct; and, that the work associated with the operations proposed herein will be performed by V-F Petroleum Inc. and its contractors and subcontractors in conformity with this plan and the terms and conditions under which it is approved. This statement is subject to the provisions of 18 U.S.C. 1001 for the filing of a false statement.

September 17, 2003


George R. Smith
Agent for: V-F Petroleum Inc.

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. 12746
ORDER NO. R-11692

APPLICATION OF V-F PETROLEUM INC. L.L.C. FOR AN ORDER
GRANTING EXCEPTIONS TO SPECIAL POOL RULES ESTABLISHED BY
DIVISION ORDER NO. R-3022, EDDY COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on November 1, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 26th day of November, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

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

(2) By Order No. R-3022, as amended, entered in Case No. 3351 on December 22, 1965, the Division, upon application of Pan American Petroleum Corporation, established "*Special Rules and Regulations for the Dos Hermanos-Morrow Gas Pool.*" These rules require standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet to the outer boundary of the section and no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary. Additionally, these rules do not contain a provision authorizing the drilling of infill wells within a standard gas proration unit.

(3) The applicant, V-F Petroleum Inc. L.L.C. ("V-F Petroleum"), seeks authority to drill its proposed Hale-Federal-Com No. 3 as a second well on a standard 640-acre gas spacing and proration unit comprising all of Section 22, Township 20 South, Range 30 East, NMPM, Eddy County, New Mexico, to an unorthodox bottomhole gas well location 950 feet from the North line and 760 feet from the West line (Unit D) of Section 22. The applicant further seeks authority to simultaneously dedicate this standard



~~640-acre spacing unit to the Hale Federal Com No. 3, and to its existing Hale Federal Com No. 2 (API No. 30-015-20556) located at a standard gas well location 1650 feet from the South line and 1800 feet from the West line (Unit K) of Section 22.~~

(4) This case was styled such that in the absence of objection, this case would be taken under advisement.

(5) V-F Petroleum appeared through legal counsel. No other offset operator or interest owner appeared at the hearing.

(6) Division records demonstrate that the Dos Hermanos-Morrow Gas Pool currently comprises Sections 21, 22, 27 and 28, Township 20 South, Range 30 East, NMPM.

(7) V-F Petroleum presented evidence that demonstrates:

(a) the Hale Federal Com No. 2 is the only well currently producing from the Dos Hermanos-Morrow Gas Pool;

(b) as of October, 2000, the Hale Federal Com No. 2 has cumulatively produced approximately 1.186 BCF of gas from the Dos Hermanos-Morrow Gas Pool. Based upon volumetric calculations, the EUR for the well will be approximately 1.205 BCF of gas;

(c) the Hale Federal Com No. 2 is estimated to ultimately drain an area of approximately 40 acres;

(d) the proposed Hale Federal Com No. 3 will be directionally drilled from a surface location 1450 feet from the South line and 660 feet from the West line (Unit L) of Section 22 to the proposed unorthodox bottomhole location due to surface considerations, namely the presence of a potash mine within the N/2 of Section 22; and

(e) a well drilled to the proposed unorthodox bottomhole location should penetrate the Morrow formation in an area of greater sand thickness than a well drilled at a standard gas well location within

the NW/4 of Section 22, thereby increasing the likelihood of obtaining commercial gas production.

(8) V-F Petroleum provided notice of its application to all affected offset operators. No offset operator or interest owner appeared at the hearing in opposition to the application.

(9) Approval of the application will provide the applicant the opportunity to recover additional gas reserves from the Morrow formation underlying Section 22, thereby preventing waste, and will not violate correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) V-F Petroleum Inc. L.L.C. is hereby authorized to drill its Hale Federal Com No. 3 as a second well on a standard 640-acre gas spacing and proration unit in the Dos Hermanos-Morrow Gas Pool comprising all of Section 22, Township 20 South, Range 30 East, NMPM, Eddy County, New Mexico, to an unorthodox bottomhole gas well location 950 feet from the North line and 760 feet from the West line (Unit D) of Section 22.

(2) The applicant is further authorized to simultaneously dedicate this standard 640-acre spacing unit to the Hale Federal Com No. 3, and to its existing Hale Federal Com No. 2 (API No. 30-015-20556) located at a standard gas well location 1650 feet from the South line and 1800 feet from the West line (Unit K) of Section 22.

(3) Prior to commencing drilling operations, the applicant shall obtain all applicable approvals from the Division's Artesia District Office relating to the directional drilling operations for the Hale Federal Com No. 3.

(4) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director

V-F Petroleum Inc.

550 W. Texas, Suite 230, Midland, Texas 79701

915/683-3344

915/683-3352 FAX

Mailing Address: P.O. Box 1889, Midland, TX 79702

E-mail: vfmid@worldnet.att.net

www.vfpetroleum.com

October 4, 2001

New Mexico Oil Conservation Division
Engineering Bureau
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Application for Non Standard
Location
Hale Federal Com. Well No. 3
BHL 950'FNL & 760'FWL
Section 22 – T20S – R30E
Dos Hermanos Field
Eddy County, New Mexico

Ladies and Gentlemen:

V-F Petroleum Inc. (V-F) is the Operator of the Hale Federal Com. Well No. 2 located in the Dos Hermanos (Morrow) Field and requests Administrative Approval to drill the Hale Federal Com. Well No 3, a second well to the Morrow Formation in Section 22 at a Non Standard Location. The Hale Federal Com. Well No. 2 is the only currently producing well in the Dos Hermanos Morrow Gas Pool. Order No. R-3022, adopted January 1, 1966, defined the Rules and Regulations for the Dos Hermanos Morrow Gas Pool. As such, the rules set the well spacing at 640 acres and that each well should be located no nearer than 1,650' feet from the outer boundary of the section line. Order No. R-3022 granted the applicant, Pan American Petroleum Corporation, their requested 640 acre spacing around their Emperor Federal Well No. 1 well largely on an economic argument that \$0.18 per mcf gas price did not allow any additional economic wells to be drilled, and that one well could efficiently drain 640 acres. Testimony was entered into record that the Emperor Federal Well No. 1 would calculate a drainage area of at least 640 acres if the perforated net pay of 43' was reduced to 14' of effective pay based upon drill stem test flow rate information. V-F suggests that over a longer period of time than a DST, most perforated intervals will contribute production, resulting in a drainage area significantly less than 640 acres. V-F requests an exception to Rule 2 (One well per 640 acres) and Rule 4 (Section line spacing provision) for the following reasons:

Geological Considerations: Attachment No. 1 is a Structure Map of the Top of the Morrow Marker overlain by an isopach map of the middle Morrow pay interval. This map demonstrates that the optimum location to drain additional reserves from the Morrow Formation is at a location of 950'FNL & 760'FWL. Moving the bottom hole location westward would result in the Morrow Formation being low to the Hale Federal Com. Well



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No. 2, and moving the bottom hole location eastward would result in a thinning Morrow section of pay. Attachment No. 2 is an East-West cross-section demonstrating the continuity of the Morrow pay intervals. Since this optimum location is less than 1,650' from the Western and Northern Boundary of Section 22 - T20S - R30E, an exception to Rule 4 is needed.

Drainage Considerations: Attachment No. 3 lists the results of drainage area estimates using volumetric calculations for the Morrow producers in the Dos Hermanos Field. Of particular interest to this application, the Emperor Federal Well No. 1 calculates a drainage area of 417 acres using an effective net pay of 39' based upon perforated intervals and log analysis. Since the historical drainage is substantially less than 640 acres per well, an exception to Rule 2 is needed to properly drain the existing reserves under Section 22 - T20S - R30E.

Additional Considerations: Attachment No. 4 lists the surrounding Operators, Leaseholders, or surface owners who have been contacted concerning this application. Attachment No. 5 is a plat of the general area surrounding the subject well. The Hale Federal Com. Well No. 3 is somewhat unusual in that it will be directionally drilled from a surface location at 1,450' FSL & 660' FWL due to numerous restrictions including a Potash Mine approximately ½ mile to the North and surface topography considerations. Attachment No. 6 is a copy of the directional well plan.

Yours very truly,



Larry N. Brazile
Vice President-Acquisitions