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2012 MAY -8 A 7:36

May 7, 2012

Ms. Jami Bailey, Director  
NM Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87501

**Hand-Delivered**

Re: NMOCD Case No. 14856: Application of SM Energy Company for Designation of a Non-Standard Spacing and Proration Unit and for Compulsory Pooling, Eddy County, New Mexico

Dear Ms. Bailey:

On behalf of SM Energy Company, enclosed is an original and one copy of an Application in the above-referenced case. Please set this matter for hearing on the June 7, 2012 examiner docket. Also enclosed is a proposed advertisement for the case.

Very truly yours,

J. Scott Hall

JSH:kw  
Enclosures

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**Case No. 14856 Application of SM Energy Company for designation of a non-standard oil spacing and proration unit and for compulsory pooling, Eddy County, New Mexico.** Applicant seeks an order consolidating the 40-acre spacing units within the S/2 S/2 of Section 35, Township 19 South Range 29 East, NMPM and designating the consolidated units as a 160-acre± non-standard oil spacing and proration unit for a well location in the Bone Spring formation for Applicant's horizontal drilling project area. Applicant further seeks the compulsory pooling of all interests in the Bone Spring formation underlying the S/2 S/2 of Section 35 to be dedicated to its Parkway "35" Federal Com No. 4H Well to be drilled horizontally from a surface location 450' from the South line and 330' from the West line (Unit M) to a bottom hole location 660' from the South line and 330' from the East line (Unit P) to a depth sufficient to test the Bone Spring formation, Parkway Bone Spring pool (49622). Also to be considered will be the cost of drilling and completing said well and the allocation of the cost thereof as well as actual operating costs and charges for supervision, designation of SM Energy Company as operator and a charge for risk involved in drilling the well. The proposed well and lands are located approximately 7 miles west of Gatuna Canyon, New Mexico.

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

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IN THE MATTER OF THE APPLICATION  
OF SM ENERGY COMPANY FOR DESIGNATION  
OF A NON-STANDARD SPACING AND PRORATION  
UNIT AND FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO

CASE NO. 14856

APPLICATION

SM ENERGY COMPANY, by its undersigned attorneys, Montgomery and Andrews, P.A. (J. Scott Hall), hereby makes application pursuant to *inter alia* Rule 19.15.16.14 NMAC of the Division's Rules and regulations and NMSA 1978 Section 70-2-17 (1995) for an order providing as follows:

A. Consolidating each of the 40-acre spacing units within the S/2 S/2 of Section 35, Township 19 South, Range 29 East, NMPM, Eddy County, New Mexico and designating the consolidated units as a 160-acre+/- non-standard oil spacing and proration unit in the Bone Spring formation, Parkway-Bone Spring Pool (49622) for Applicant's horizontal drilling project area; and

B. Pooling all interests in the Bone Spring formation underlying the S/2 S/2 of Section 35.

In support, Applicant states:

1. Applicant owns certain working interests in and under the proposed project area in Section 35, and has the right to drill thereon.

2. Applicant proposes to dedicate the above-referenced pooled unit to its Parkway "35" Federal Com No. 4H Well to be drilled horizontally from a standard surface location 450' from the South line and 330' from the West line (Unit M) to a bottom hole location 660' from

the South line and 330' from the East line (Unit P) to a depth sufficient to test the Bone Spring formation underlying the proposed project area in Section 35.

3. Applicant does not have leases or a voluntary agreement for pooling or farmout from certain other interest owners in the above-reference formation underlying the proposed non-standard unit.

4. In order to permit the Applicant to obtain its just and fair share of the oil and gas underlying the subject lands, the mineral interests should be pooled and the Applicant should be designated operator of the well.

5. The pooling of interests and approval of the non-standard spacing and proration unit and standard project area will afford the Applicant the opportunity to produce its just and equitable share of hydrocarbons underlying the spacing unit, will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed hearing examiner of the Oil Conservation Division on June 7, 2012 and that after notice and hearing as required by law, the Division enter its Order approving the non-standard spacing unit, the standard project area and pooling the lands, including provisions for Applicant to recover its costs of drilling, equipping and completing the well, its costs of supervision while drilling and after completion, including overhead charges and providing for adjustments to such rates in accordance with accepted COPAS accounting procedures, and imposing a 200% risk factor for the risk assumed by the Applicant in drilling, completing and equipping the well, and making such other and further provisions as may be proper in the premises.

Respectfully submitted,

MONTGOMERY & ANDREWS, P.A.

By: J. Scott Hall

J. Scott Hall

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