

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. 13918
ORDER NO. R-12789

APPLICATION OF HOLCOMB OIL AND
GAS, INC. FOR AN UNORTHODOX WELL
LOCATION, SAN JUAN COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 21, 2007, at Santa Fe, New Mexico, before Examiner David K. Brooks.

NOW, on this 16th day of July, 2007, 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 the subject matter of this case.

Application and Background Facts

(2) In this application, Holcomb Oil and Gas, Inc. ("Holcomb" or "Applicant") seeks approval to drill its proposed Magnum Well No. 1S (API No. 30-045-34266) ("the proposed well") at an unorthodox gas well location, 1985 feet from the North line and 2470 feet from the West Line (Unit F) of Section 27, Township 29 North, Range 11 West, in San Juan County, New Mexico.

(3) Applicant proposes to complete the proposed well in the Basin-Fruitland Coal Gas Pool (Pool Code 71629), and to dedicate thereto a standard 320-acre unit comprising the W/2 of Section 27.

(4) Spacing in this pool is governed by Rules 4 and 7 of the Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool, as most recently amended by Oil Conservation Commission Order R-8768-F, issued in Case No. 12888 on July 17, 2003. These rules provide that a well shall be located in a quarter section not containing an existing Fruitland Coal gas well, at least 660 feet from any outer boundary of the spacing unit, and at least ten feet from a quarter-section line that is internal to the spacing unit.

(5) The proposed location is unorthodox because it is only 170 feet from the western boundary of the spacing unit.

(6) Holcomb initially filed an application for administrative approval of the proposed unorthodox location. After Holcomb gave notice of its administrative application, XTO Energy Inc. ("XTO"), an affected owner in the E/2 of Section 27 (the adjoining spacing unit towards which the proposed location would encroach) filed a protest, and the application was accordingly set for hearing.

Applicant's Evidence

(7) At the hearing, Applicant appeared through counsel and presented evidence as follows:

(a) The proposed unorthodox location is a relatively flat, and therefore topographically acceptable, location at which Applicant has secured approval of the surface owner for the siting of the proposed well.

(b) Portions of the drilling window in the NW/4 of Section 27 are occupied by (i) an operating gravel pit, and (ii) an area under development as a City park. The owner of the gravel pit and the park officials of the City of Bloomfield have indicated to Applicant that they will resist location of a well within their respective tracts.

(c) The drilling window in the NW/4 of Section 27 is located within the municipal limits of the City of Bloomfield, which requires a permit for the drilling of a well.

(8) Applicant's witness further testified that:

(a) The proposed unorthodox location is not being sought for geologic reasons.

(b) Applicant does not know what will be the drainage radius of the proposed well, or from where it will draw reserves.

(c) Applicant has not contacted owners of surface tracts in the NW/4 of Section 27 other than the gravel pit operator, the City of

Bloomfield, and the owner of surface at the proposed unorthodox location, regarding their willingness to consent to location of a well on their tracts.

XTO's Evidence

(9) XTO appeared through counsel and presented evidence as follows:

(a) XTO owns a working interest in the E/2 of Section 27, but owns no interest in the W/2 of the Section.

(b) There exists at least one tract within the drilling window in the NW/4 of Section 27, north of the San Juan River, (The "R.J. Henderson Tract") that is topographically suitable for location of a well, is currently devoted to agricultural, as distinguished from residential or commercial use, and is not located within either the gravel pit area or the City parklands.

Division Conclusions

(10) Applicant did not offer any evidence that the proposed well would produce hydrocarbons that could not be produced by a well at a standard location within the NW/4 of Section 27.

(11) Applicant's evidence did not rule out, on topographical, access, or other grounds, the feasibility of locating a well at a standard location north of the San Juan River, on privately owned land, outside the boundaries of the City park.

(12) Applicant did not present any evidence that the City of Bloomfield would deny a permit for a well located on private land.

(13) Applicant has not demonstrated that the proposed unorthodox location is necessary to prevent waste or to protect its correlative rights, and the Application should accordingly be denied.

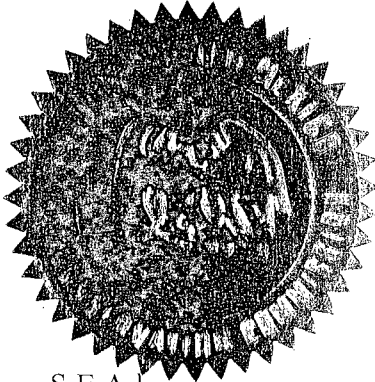
IT IS THEREFORE ORDERED THAT:

(1) Holcomb's application for approval of an unorthodox gas well location for its proposed Magnum Well No. 1S (API No. 30-045-34266) is hereby denied.

(2) The Division's approval of the Application for Permit to Drill (APD) for the proposed well is cancelled.

(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 dark ink, appearing to read "Mark E. Fesmire", is written over a horizontal line.

MARK E. FESMIRE, P.E.
Director