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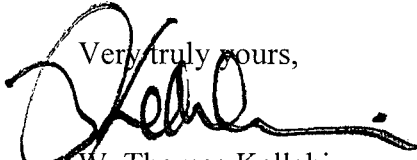
HAND DELIVERED

David K. Brooks, Esq.
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Proposed Order
NMOCD Case 13918
Application of Holcomb Oil & Gas Inc.
For an unorthodox Gas Well Location
San Juan County, New Mexico

Dear Mr. Brooks:

On behalf of XTO Energy Inc., please find enclosed for your consideration a proposed order denying Holcomb's application.

Very truly yours,

W. Thomas Kellahin

cc: Earnest L. Padilla, Esq.
Attorney for Holcomb Oil & Gas Inc.
XTO Energy Inc.
Attn: Chris Spenser

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**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-_____**

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

**XTO ENERGY INC.'S PROPOSED
ORDER OF THE DIVISION**

BY THE DIVISION:

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

NOW, on this ____ day of July, 2007, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Holcomb Oil & Gas, Inc. ("Holcomb") seeks an order authorizing the drilling and production of its Mangum Well No. 1Y (API No. 30-045-34266) at an unorthodox well location 1985 feet from the North line and 2470 feet from the West line of Section 27, Township 29 North Range 11 West, NMPM to be dedicate to a standard 320-acre spacing unit consisting of the W/2 of this section for any production for any Basin Fruitland Coal Gas Pool. This administrative case was set for hearing upon the objection of XTO Energy Inc. ("XTO"), an offsetting working interest owner in the E/2 of this section.

(3) This location is within the "under pressure area" of the Basin-Fruitland Coal Gas Pool which is subject to Special Rules and Regulations as set forth in Rule 4 and 7 of Division Order R-8768, as amended, which provide, among other things:

(a) for 320-acre proration and spacing units for gas production (Rule 4); and

(b) for wells located no closer than 660 feet to the nearest side boundary of the unit or closer than 10 feet to any interior quarter-quarter section line (Rule 7).

(4) Holcomb's requested unorthodox well location encroaches towards a proposed offsetting 320-acre spacing unit consisting of the E/2 of Section 27, T29N, R11W in which Holcomb and XTO each has a 37.5% interest.

(5) Holcomb sought approval of the unorthodox location WITHOUT a penalty based upon the following arguments and evidence:

(a) Holcomb's unorthodox location is 170 feet from the centerline that divides the E/2 from the W/2 of Section 27;

(b) Holcomb's unorthodox location is based entirely upon objections of surface owners or topographical problems within the NW/4 of Section 27;

(c) Holcomb contends this location is justified "so as not to interfere with ongoing Foutz & Bursum gravel pit operations, Giant refining operations and a park in the city of Bloomfield."

(d) Holcomb argued that the unorthodox location is necessary in order to protect his correlative rights by encroaching towards the E/2 of Section 27 where he holds a larger working interest.

(6) XTO, through cross-examination of W. J. "Jeff" Holcomb, and with its own expert witness, Paul Lehrman, a land use coordinator, demonstrated that:

(a) Of the three reasons given by Holcomb for the requested unorthodox location, both the existing baseball park for Bloomfield and the Giant refinery are outside of the standard drilling window in the NW/4 of Sec 27;

- (b) Approximately 70% of a standard drilling window is located north of the San Juan River; the Foutz & Bursum gravel pit and the proposed future park along the northern bank of the San Juan River;
- (c) Holcomb failed to check for or attempt to obtain any standard well location north of the San Juan River;
- (d) Mr. Lehrman identified standard well locations available to Holcomb within the NW/4 of Section 27 that meet Holcomb's criteria for a well location, including availability to road access and pipeline and avoided surface obstructions. **See XTO Exhibits "A" and "B"**
- (e) In addition, Mr. Lehrman identified standard well locations on the J. R Henderson tract that are not within the Foutz & Bursum gravel pit, Giants refining operations or the current or future park in the City of Bloomfield. **See XTO Exhibit "B"**
- (f) It was admitted by W. J. "Jeff" Holcomb that:
 - (1) Holcomb had not established the necessary gathering line access so that a well at his requested location could be produced;
 - (2) Holcomb has standard well locations north of the San Juan River;
 - (3) Holcomb had not examined if his proposed well could be directional drilled to a standard bottom hole location.
- (7) The Division should DENY Holcomb's requested unorthodox well location for reasons that include the following:
 - (a) While Holcomb may have a larger working interest in the NE/4 of Section 27, its proposed unorthodox well location, if approved, would impair the correlative rights of his lessors and violate his duties as the offsetting operator to protect those owners;
 - (b) Holcomb has failed to demonstrate that it cannot obtain a standard location within the NW/4 of this section;

- (c) Holcomb's proposed unorthodox well location cannot be justified based upon its topographical reasons;
- (d) In order to avoid waste and to protect correlative rights, the Division's well location rules for this pool are intended to require that wells be drilled at standard locations in order to avoid drilling unnecessary wellbores;
- (e) Approval of Holcomb's application would cause offset operators to drill similar wells at similar unorthodox locations resulting in the drilling of too many wells too close together;
- (f) A standard location will allow Holcomb to produce its share of hydrocarbons underlying the W/2 of Section 27 while at the same time not unfairly draining the offsetting spacing unit in the E/2 of Section 27;
- (g) Holcomb failed to demonstrate that it could not properly develop and drain the W/2 of Section 27 with a well location at a standard well location;
- (h) Conversely, Holcomb also failed to demonstrate that a well at this extreme unorthodox location would properly develop and drain the W/2 of Section 27;
- (i) Holcomb failed to meet its burden of proof to establish that approval of this application will prevent waste and protect the correlative rights of all parties;
- (j) Holcomb failed to establish that there was no other location in the NW/4 of Section 27 for the subject well;
- (k) To approve Holcomb's application would resolve Holcomb's alleged topographical problem solely at the expense of the offsetting interest owners, including XTO;
- (l) Approval of Holcomb's application would afford Holcomb an unfair competitive advantage over XTO and would violate the correlative rights of XTO and others.

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(8) It is not a justification to allow wells at unorthodox well location simply because the applicant has found a convenient surface location. Granting approval of an application based upon that position would circumvent well spacing rules and lead to unrestricted competitive drilling at multiple unorthodox well locations all to the damage of correlative rights and prevention of waste.

(9) The applicant's request for an unorthodox well location is not justified and should therefore be denied.

IT IS THEREFORE ORDERED THAT:

(4) The application of Holcomb Oil & Gas, Inc. ("Holcomb") for an order authorizing the drilling and production of its Mangum Well No. 1Y (API No. 30-045-34266) at an unorthodox well location 1985 feet from the North line and 2470 feet from the West line of Section 27, Township 29 North Range 11 West, NMPM to be dedicate to a standard 320-acre spacing unit consisting of the W/2 of this section for any production for any Basin Fruitland Coal Gas Pool is hereby **DENIED**.

(5) The District's approval of Holcomb's APD for the Mangum Well No. Y (API No. 30-045-34266) is hereby **CANCELED**.

(6) Jurisdiction of this cause 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.

**STATE OF NEW MEXICO
OIL CONSERVATION DIVISION**

**MARK FESMIRE, P. E.
Director**

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