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August 20, 2007

HAND DELIVERED

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

Re: Application of Parallel Petroleum Corporation
For Special Rules for Wolfcamp formation production
For the Walnut Creek-Wolfcamp Gas Pool
Swale 1525-16 State Well No. 1 (discovery well)
Unit L of Section 16, T15S, R25E (S/2 dedication)
Chaves County, New Mexico

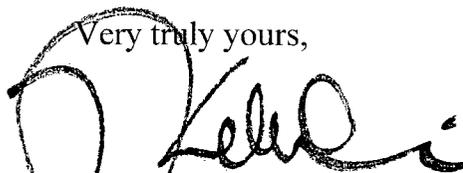
Case 13986
13986

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Dear M. Fesmire:

On behalf of Parallel Petroleum Corporation find enclosed our referenced application that we request be set for hearing on the Examiner's docket now scheduled for September 20, 2007. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Parallel Petroleum Corporation
Attn: Mike Gray

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CASE 13986: Application of Parallel Petroleum Corporation, for the adoption of special rules and regulations for the Walnut Creek-Wolfcamp Gas Pool, Chaves County, New Mexico. Applicant requests that the Division enter an order adopting of special rules and regulations for the Walnut Creek-Wolfcamp Gas Pool (Pool code #97631) a recently created pool for Wolfcamp formation gas production, to authorized the drilling and simultaneously dedication a standard gas spacing and proration unit in the Wolfcamp formation for two horizontal wellbores including an exemption to the well density requirements of Rule 104.D. This pool is located in S/2 of Section 16, T15S, R25E approximately 10 miles Southeast from Hagerman, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF PARALLEL PETROLEUM CORPORATION
FOR THE ADOPTION OF SPECIAL RULES
FOR THE WALNUT CREEK-WOLFCAMP GAS POOL,
CHAVES COUNTY, NEW MEXICO.

CASE NO. 13986

APPLICATION

Parallel Petroleum Corporation ("Parallel") by its attorneys, Kellahin & Kellahin, applies to the New Mexico Oil Conservation Division for the adoption of special rules and regulations for the Walnut Creek-Wolfcamp Gas Pool (pool code #97631) a recently created pool for Wolfcamp formation gas production, to authorize the drilling and simultaneously dedicate a standard gas spacing and proration unit in the Wolfcamp formation for two horizontal wellbores including an exemption to the well density requirements of Rule 104.D, Chaves County, New Mexico.

AND in support states:

(1) The Division has created the Walnut Creek-Wolfcamp Gas Pool that currently includes the following described acreage located in Chaves County, NM:

S/2 of Section 16, Township 15 South Range 25 East

(2) Parallel is the only operator currently drilling and producing wells in this pool including the Swale State Com 1525-16 No. 1 (API #3000563886) that has been drilled and completed as a horizontal well in the Unit L of Section 16, T15S, R25E as the discovery well for this gas pool.

(3) Applicant intends to drill a second horizontal wellbore in a standard 320-acre spacing and proration unit comprised of the S/2 of Section 16, Township 15 South, Range 25 East, Chaves County, New Mexico in the Wolfcamp formation and has obtained approval of its APD to drill second horizontal well in the S/2S/2 of Section 16, T15S, R25E being the Swale State Com 1525-16 No. 2 (API #3000563924).

(4) Division Rule 111 provides for the rules and regulations of the drilling of directional wells and by definition includes "horizontal" wells but apparently does not limit the number of horizontal wells that can be drilled within a Project Area. Instead Rule 111 refers to a project area "that is enclosed by the outer boundaries of a spacing unit or a combination of complete spacing units," and incorporates by reference Rule 104 to define a "spacing unit"

(5) Division Rule 104.C (2) allows two wells in a 320-acre spacing unit with each well located in a different 160-tract of the 320-acre spacing unit. This rule appears not to specifically address horizontal wells.

Division Rule 104.D (3) States: "number of wells per spacing unit. Exceptions to the provisions of statewide rules or special pool orders concerning the number of wells allowed per spacing unit may be permitted by the Director only after notice and opportunity for hearing. Notice shall be given to those "affected parsons" defined by Rule 1207.A (2)."

(6) Parallel will provide written notice of hearing to all "affected parties, including those listed on the attached locator map and index.

(7) Parallel will demonstrate that because of the low permeability of the Wolfcamp formation in this area:

(a) the actual area being depleted by the first horizontal well is generally limited to the north half of this spacing unit, being the N/2S/2 of Section 16, that will not adversely affect the recovery of the gas in the S/2S/2 of Section 16 and neither will adversely affect the correlative rights of the offsetting interest owners.

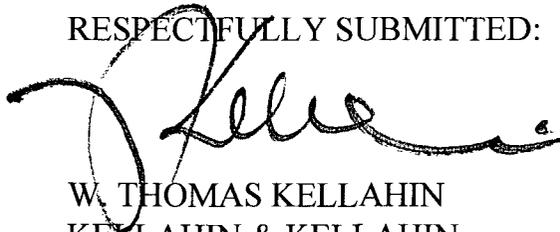
(b) A second horizontal well is needed in the south half of this spacing unit, being the S/2S/2 of Section 16, in order to provide an opportunity to recover gas that might otherwise not be recovered under the S/2 of Section 16 and in doing so will not adversely affect the correlative rights

(8) Approval of this application will protect correlative rights and prevent waste.

(9) In accordance with the Division's notice requirements, a copy of this application has been sent to the operators within 1 mile of the proposed outer boundary of this pool as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for September 20, 2007.

WHEREFORE, Parallel, as applicant, requests that this application be set for hearing on September 20, 2007 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order adopting special rules as requested.

RESPECTFULLY SUBMITTED:



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