

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. 14022  
ORDER NO. R-12841

APPLICATION OF DAN A. HUGHES COMPANY, L.P. FOR APPROVAL OF A  
UNIT AGREEMENT, HIDALGO COUNTY, NEW MEXICO

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing on November 1, 2007, at Santa Fe, New Mexico, before Examiners William V. Jones and Carol Leach.

NOW, on this 19<sup>th</sup> day of November, 2007, the Division Director, having considered the testimony, the record, and the recommendations of the Examiners,

FINDS THAT:

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

(2) The applicant, Dan A. Hughes Company, L.P., seeks approval of its Hueco South Exploratory Unit Agreement for all oil and gas in all formations underlying the following-described 82,622.60 acres, more or less, of state and fee lands in Hidalgo County, New Mexico:

Township 32 South, Range 16 West, NMPM

Section 5:	All
Section 7:	SE/4
Section 8:	E/2
Section 9:	All
Sections 14 through 17:	All
Section 18:	NE/4, N/2 SE/4, SE/4 SE/4
Sections 19 through 22:	All
Section 23:	All
Section 24:	W/2, W/2 E/2

BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 14050....Exhibit No. 2  
Submitted by:  
DAN A. HUGHES COMPANY, L.P.  
Hearing Date: December 13, 2007

Sections 25 through 35: All

**Township 32 South, Range 17 West, NMPM**

Section 21: All  
Section 24: N/2 N/2, S/2 S/2  
Sections 25 through 26: All  
Section 27: S/2, S/2 N/2  
Section 28: All  
Sections 33 through 36: All

**Township 33 South, Range 15 West, NMPM**

Section 31: W/2, NE/4, NE/4 SE/4

**Township 33 South, Range 16 West, NMPM**

Sections 2 through 11: All  
Sections 14 through 23: All  
Sections 25 through 32: All  
Section 33: S/2, NE/4, N/2 NW/4, SE/4 NW/4  
Sections 34 through 36: All

**Township 33 South, Range 17 West, NMPM**

Sections 1 through 4: All  
Sections 9 through 16: All  
Section 21: NE/4, S/2  
Sections 22 through 28: All  
Sections 33 through 36: All

**Township 34 South, Range 15 West, NMPM**

Section 4: All  
Section 5: E/2, NE/4 NW/4, E/2 SW/4, SW/4 SW/4  
Section 6: S/2, NW/4, W/2 NE/4, SE/4 NE/4  
Section 7: W/2, SE/4, E/2 NE/4, SW/4 NE/4  
Section 8: S/2 SW/4, NE/4 SW/4, W/2 SE/4, NE/4 SE/4  
Section 9: SW/4 NE/4, SE/4 NW/4, NW/4 SW/4, S/2 SE/4  
Section 10: E/2, S/2 SW/4  
Section 11: W/2, SW/4 SE/4  
Section 12: SW/4 SE/4, SE/4 SW/4  
Section 13: S/2, NE/4, NE/4 NW/4  
Section 14: NW/4 NE/4, NE/4 NW/4, SE/4 NE/4, E/2 SE/4  
Section 15: SE/4 SE/4, NW/4 SE/4, N/2 SW/4, NW/4  
Section 16: All  
Section 17: S/2, NW/4, S/2 NE/4, NW/4 NE/4  
Section 18: NW/4, N/2 SW/4, SE/4 SW/4, N/2 NE/4, SE/4  
NE/4  
Section 19: Lot 2, SW/4 NE/4, NE/4 NW/4  
Section 20: N/2 NE/4

Section 21: NW/4 NW/4  
Section 23: N/2 NE/4

**Township 34 South, Range 16 West, NMPM**

Sections 3 through 11: All  
Sections 14 through 24: All

**Township 34 South, Range 17 West, NMPM**

Sections 1 through 4: All  
Sections 10 through 16: All  
Section 24: All

(3) Applicant presented testimony that demonstrates that:

(a) Sufficient working interest and royalty interest within the Unit area have been voluntarily committed to afford effective control of unit operations to the Unit Plan.

(b) The unit covers an area located within the Pedregosa Basin that can be reasonably developed under a unit plan.

(c) The primary target for this unit area is the Percha Shale formation, but all formations will be evaluated down to the base of the Percha Shale formation, and if the initial well is successful, additional wells will be drilled in the unit area.

(d) The oil and gas mineral rights in approximately 95.5 percent of the acreage detailed above are owned by the State of New Mexico. The Commissioner of Public lands has given preliminary approval for the proposed Unit.

(e) The initial test well (Hueco South Unit 26 State Well No. 1) will be drilled to an approximate depth of 6600 feet at a standard well location 660 feet from the South and West lines of Section 26, Township 32 South, Range 17 West, NMPM, Hidalgo County, New Mexico.

(f) Information will be gathered to aid in identification of fresh waters in this basin. Wells and drilling operations will be designed in order to protect and preserve these waters.

(4) Dan A. Hughes Company, L.P., Fort Worth Operating Company, Yates Petroleum Corporation, and Harvey E. Yates Company each have acreage leased which is included in the 82,622.60 acres detailed above. At the time of the hearing, Yates Petroleum Corporation and Harvey E. Yates Company had not contributed acreage to this unit. Harvey E. Yates Company appeared at the hearing but did not provide testimony. No other participants appeared or otherwise objected to the proposed unit agreement.

(5) All of the proposed unit acreage appears prospective for exploration and recovery of oil and gas from the target formations under the concept proposed by the applicant. These acres should be unitized and should equally share in the benefits from future oil and gas recovery.

(6) Within this unit, exploratory (wildcat) well drilling applications should be individually reviewed by the Division Director to ensure prevention of waste, protection of correlative rights, and protection of human health and the environment. For these wells, the Division should have the option of requiring notice and public hearing prior to approval of the drilling permits.

(7) The approval of the proposed unit agreement will serve to prevent waste and protect correlative rights within the lands assigned to the unit area.

**IT IS THEREFORE ORDERED THAT:**

(1) The Hueco South Exploratory Unit Agreement is hereby approved for all oil and gas in all formations underlying the following-described 82,622.60 acres, more or less, of state and fee lands situated in Hidalgo County, New Mexico:

**Township 32 South, Range 16 West, NMPM**

Section 5:	All
Section 7:	SE/4
Section 8:	E/2
Section 9:	All
Sections 14 through 17:	All
Section 18:	NE/4, N/2 SE/4, SE/4 SE/4
Sections 19 through 22:	All
Section 23:	All
Section 24:	W/2, W/2 E/2
Sections 25 through 35:	All

**Township 32 South, Range 17 West, NMPM**

Section 21:	All
Section 24:	N/2 N/2, S/2 S/2
Sections 25 through 26:	All
Section 27:	S/2, S/2 N/2
Section 28:	All
Sections 33 through 36:	All

**Township 33 South, Range 15 West, NMPM**

Section 31:	W/2, NE/4, NE/4 SE/4
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**Township 33 South, Range 16 West, NMPM**

Sections 2 through 11:	All
Sections 14 through 23:	All

Sections 25 through 32: All  
Section 33: S/2, NE/4, N/2 NW/4, SE/4 NW/4  
Sections 34 through 36: All

**Township 33 South, Range 17 West, NMPM**

Sections 1 through 4: All  
Sections 9 through 16: All  
Section 21: NE/4, S/2  
Sections 22 through 28: All  
Sections 33 through 36: All

**Township 34 South, Range 15 West, NMPM**

Section 4: All  
Section 5: E/2, NE/4 NW/4, E/2 SW/4, SW/4 SW/4  
Section 6: S/2, NW/4, W/2 NE/4, SE/4 NE/4  
Section 7: W/2, SE/4, E/2 NE/4, SW/4 NE/4  
Section 8: S/2 SW/4, NE/4 SW/4, W/2 SE/4, NE/4 SE/4  
Section 9: SW/4 NE/4, SE/4 NW/4, NW/4 SW/4, S/2 SE/4  
Section 10: E/2, S/2 SW/4  
Section 11: W/2, SW/4 SE/4  
Section 12: SW/4 SE/4, SE/4 SW/4  
Section 13: S/2, NE/4, NE/4 NW/4  
Section 14: NW/4 NE/4, NE/4 NW/4, SE/4 NE/4, E/2 SE/4  
Section 15: SE/4 SE/4, NW/4 SE/4, N/2 SW/4, NW/4  
Section 16: All  
Section 17: S/2, NW/4, S/2 NE/4, NW/4 NE/4  
Section 18: NW/4, N/2 SW/4, SE/4 SW/4, N/2 NE/4, SE/4  
NE/4  
Section 19: Lot 2, SW/4 NE/4, NE/4 NW/4  
Section 20: N/2 NE/4  
Section 21: NW/4 NW/4  
Section 23: N/2 NE/4

**Township 34 South, Range 16 West, NMPM**

Sections 3 through 11: All  
Sections 14 through 24: All

**Township 34 South, Range 17 West, NMPM**

Sections 1 through 4: All  
Sections 10 through 16: All  
Section 24: All

(2) The plan contained in the Hueco South Exploratory Unit Agreement for the development and operation of the above-described unit area is hereby approved in principle; provided, however, notwithstanding any of the provisions contained in the unit agreement, this approval shall not be considered as waiving or relinquishing, in any

manner, any right, duty, or obligation that is now, or may hereafter be, vested in the Division to supervise and control operations for the unit and production of oil and gas therefrom.

(3) The unit operator shall file with the Division an executed original or executed counterpart of the unit agreement within 30 days of the effective date thereof; in the event of subsequent joinder by any other party, or expansion or contraction of the unit area, the unit operator shall file with the Division, within 30 days thereafter, copies of the unit agreement reflecting the subscription of those interests having joined or ratified.

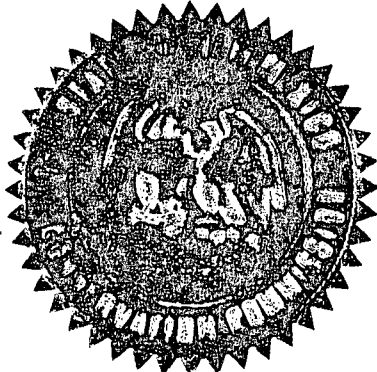
(4) All: (i) plans of development and operation; (ii) creations, expansions or contractions of participating areas; and (iii) expansions or contractions of the unit area shall be submitted to the Division Director for approval.

(5) This order shall become effective upon the approval of the unit agreement by the New Mexico State Land Office. This order shall terminate upon the termination of the unit agreement. The last unit operator shall notify the Division immediately in writing of such termination.

(6) Within this unit, exploratory wildcat drilling applications as defined in NMAC 19.15.3.104A.(1)(b) shall be individually reviewed by the Division Director to ensure prevention of waste, protection of correlative rights, and protection of human health and the environment. For these exploratory wells, the Division shall have the option of requiring notice and public hearing prior to approval of the drilling permits.

(7) 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.



SEAL

STATE OF NEW MEXICO  
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read "Mark E. Fesmire".

MARK E. FESMIRE, P.E.  
Director