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United States Department of the Interior

BUREAU OF LAND MANAGEMENT

New Mexico State Office

1474 Rodeo Rd.

P.O. Box 27115

Santa Fe, New Mexico 87502-0115

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February 19, 2008

Mark Fesmire, Director
Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

RE: Application of J. Cleo Thompson and James Cleo Thompson, Jr., L.P., for a non-standard gas well unit and two unorthodox gas well locations, regarding the S½NE¼ and SE¼NW¼ of sec. 27, T. 21 S., R. 26 E., NMPM, Eddy County, New Mexico.

Dear Mr. Fesmire:

On January 28, 2008, we received a copy of the referenced application. As stated in the application, J. Cleo Thompson and James Cleo Thompson, Jr., L.P. (collectively, JCT) are requesting approval of a non-standard gas well unit and two unorthodox gas well locations. JCT is proposing to drill two vertical gas wells within the 120-acre unorthodox spacing unit, to test the Strawn, Atoka, and Morrow Formations.

The Bureau of Land Management (BLM) would like to provide you with some background information about this application, and our assessment of its merits. This is not, and is not intended to be, a formal protest. The Secretary of the Interior, and the BLM as his delegee, has authority to approve New Mexico Oil Conservation Division orders and thereby, make such orders binding against Federal lands pursuant to regulations, but the Division may not, by its order, bind the Secretary.

Mineral Ownership and Background

In the subject application, JCT correctly states that the remainder of the land in sec. 27 is unleased Federal minerals. Land adjacent to the proposed well locations is within Carlsbad city limits. The Living Desert State Park (LDSP) also comprises a significant portion of the surface of sec. 27.

Under the Carlsbad Field Office's (CFO) 1997 Resource Management Plan (RMP), the BLM did not offer the Federal minerals for lease in order to protect the wildlife, aesthetic and recreation values of land overlying the Federal minerals, within and in proximity to the LDSP. The BLM may, however, lease Federal minerals if they are subject to drainage. If the subject application is approved, the BLM will require our lessee to drill additional wells to prevent further drainage.

In March, 2007, W. Chris Barnhill, President of Tierra Oil Company (Tierra) contacted the CFO with geological and engineering information identifying natural gas prospects in the Morrow, Atoka and Wolfcamp Formations. The BLM informed Mr. Barnhill that the lands are not available for leasing.

As an alternative to leasing, Mr. Barnhill proposed a compensatory royalty agreement (CRA). The CFO forwarded Mr. Barnhill's application for the CRA to the Division of Minerals in the New Mexico State Office, and the BLM and Mr. Barnhill began good faith negotiations regarding the CRA.

The BLM and Mr. Barnhill ultimately agreed to the essential terms of the CRA. This CRA would permit the operator to drill directional wells from surface locations outside of the LDSP, bottoming in the 120 acre tract of private minerals identified above (thus protecting the scenic values of the LDSP). Mr. Barnhill intended to drill two wells in sec. 27 under standard spacing and setbacks, with two 'stand-up' 320 acre spacing units consisting of the E½ and W½ of sec. 27. Each stand-up unit would be communitized, and the Federal government would receive royalty on its proportionate share of each spacing unit.

Given the circumstances, the BLM believed the agreement was in the best interest of all parties, for three reasons: 1) directional drilling is less intrusive to the LDSP; 2) minerals in sec. 27 could be developed without waste; and 3) the BLM's correlative rights in sec. 27 would be protected.

Mr. Barnhill then commenced to search for an operator, resulting in his agreement with JCT. As is clear from JCT's current application, both Tierra and JCT disregarded the negotiated CRA, to BLM's dismay.

As stated by JCT, geologic and engineering data for this area supports statewide spacing rules. Nearby Morrow gas pools are being developed using 320 acre spacing.

The BLM's Assessment of the Application

The BLM respectfully recommends that the OCD deny this application. Based upon the circumstances and facts recounted above, it should be clear that unorthodox spacing and well locations in sec. 27 would:

1. drain Federal minerals, violating the Federal government's correlative rights;
2. force the BLM to lease the federal minerals in sec. 27, thus allowing wells to damage valuable visual, aesthetic and recreation resources in Carlsbad and the LDSP, and potential resource and economic waste;
3. disregard the fact that JCT's predecessor engaged in good faith negotiations with the BLM to adopt a mutually-beneficial CRA; and
4. be inconsistent with current spacing of nearby Morrow gas pools, which are developed under statewide rules of 320 acre spacing.

If the OCD decides to approve this application, we respectfully recommend that the allowable production be limited to reserves recoverable from the 120 acre unorthodox spacing unit.

In preparing the 1997 Carlsbad RMP, the BLM worked cooperatively with the state, city and public to develop a plan that balances competing uses of the land. The BLM engaged in good faith negotiations with JCT's predecessor in an attempt to preserve that balance, negotiations now discarded by the current applicant. The BLM believes that approval of this application for unorthodox spacing would fly in the face of this cooperative planning effort, result in undue waste of both surface and mineral resources, and violate Federal correlative rights.

If you have any questions or need further clarification, please contact Mr. Shannon J. Shaw, Supervisory Petroleum Engineer, or Mr. Jay Spielman, Geologist, at 438-7640/7503.

Sincerely,



Tony Herrell
Deputy State Director
Division of Minerals

cc:

James Bruce, Attorney at Law, P.O. Box 1056, Santa Fe, NM, 87504

Chris Barnhill, Tierra Oil Company, LLC, P. O. Box 700968, San Antonio, TX 78270-0968

Arthur Arguedas, Field Office, Southwest Region, P.O. Box 1042, Santa Fe, NM 87504-1042

Holly Meyer, Office of the Solicitor, Regional Solicitor's Office, 500 Marquette Street SW,
Suite 1800, Albuquerque, NM 87102

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