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RECEIVED OCD

2010 SEP -8 P 3: 28

September 8, 2010

Ms. Florene Davidson
New Mexico Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

Hand Delivered

Re: NMOCD Case No. 14576: Application of Approach Operating LLC for an Unorthodox Well Location and Non-Standard Oil Spacing and Proration Unit, Rio Arriba County, New Mexico

Dear Ms. Davidson:

On behalf of Approach Operating LLC, enclosed is an Application in the above-referenced case. Please set this matter for hearing on the December 16, 2010 examiner docket. Also enclosed is a proposed advertisement for the case.

Thank you.

Very truly yours, .

Karen Williams
Assistant to J. Scott Hall

:kw
Enclosures
cc: Brice Morgan, Approach Resources
00216134.

REPLY TO:

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

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2010 SEP -8 P 3:

IN THE MATTER OF THE APPLICATION OF
APPROACH OPERATING LLC FOR AN
UNORTHODOX WELL LOCATION AND NON-
STANDARD OIL SPACING AND PRORATION
UNIT, RIO ARRIBA COUNTY, NEW MEXICO.

CASE NO. 14576

APPLICATION

APPROACH OPERATING LLC, ("Approach") by and through its attorneys, Montgomery and Andrews, P.A. (J. Scott Hall, Esq.), hereby makes application pursuant to *inter alia* Rule 19.15.15.13 and the applicable statewide rules governing oil well locations (Rule 19.15.15.19A) and Rule 19.15.15.11 NMAC of the Division's Rules and Regulations for an order approving an unorthodox well location and the formation of a non-standard oil well spacing and proration unit comprised of 52.0 ± acres located in the NW/4 NW/4 of projected Section 3, T27N, R4E in Rio Arriba County, New Mexico. In support, Applicant states:

1. Applicant is the operator of the following well:

Montano No. 1 Well
API No. 30-39-30858
939' FNL and 207' FWL (D)
Projected Section 3, T27N, R4E
Rio Arriba County, New Mexico

2. Applicant proposes to drill this straight-hole well to a depth sufficient to test the Mancos Shale formation within the boundaries of the WC Tierra Amarilla Mancos Oil Pool (97767). The well is defined as a wildcat under the Division's rules. The statewide rules for wildcat oil wells currently provide that wells shall be drilled no closer than 330' to the outer boundary of a standard 40-acre spacing unit.

3. Approach seeks an exception from the applicable well location rules for the Montano No. 1 Well for the following reasons: (1) The well is located in an un-surveyed area within the Tierra Amarilla land grant. The section/township/range description of the location is based on unofficial, projected township and section lines from an adjoining survey and therefore, it is not possible to state the proximity to actual section lines or quarter-quarter subdivisions boundaries with certainty. However, the location descriptions by latitude/longitude and by reference to the New Mexico State Plane Coordinate System referenced on the C-102 for the well are accurate. (2) The well has also been located in conformance with the Design and Operational Standards for Oil and Gas Development of Rio Arriba County Ordinance No. 2009-01. Among other matters, these standards take into consideration terrain limitations, access roads, proximity to water features, and compatibility with existing land uses.

4. The location for this well is not closer than 660' to any existing well or a well that is known to be planned. Approach Operating LLC's affiliate company, Approach Oil and Gas Inc., owns or controls 100% of the leasehold working interest in each of the adjoining spacing units toward which the location encroaches and Approach Operating would be the operator of each of those units. Further, the mineral interest ownership underlying the NW/NW of projected Section 3 and each of the spacing units toward which the well encroaches is identical. Consequently, no further notice for the NSL application is indicated under the Division's rules (See Rule 19.15.4.12.A.2).

5. Approach also seeks approval of a 52.0 ± acre non-standard spacing and proration unit to be dedicated to the referenced well located within the approximate equivalent of the NW/4 NW/4 of projected Section 3. All of the proposed non-standard unit is part of a single lease. The eastern boundary of the unit is coterminous with the boundary of the lease.

6. The statewide oil well location and acreage dedication rules that would otherwise be applicable to the WC Tierra Amarilla Mancos Oil Pool (97767) provide that oil wells shall be located on a spacing unit “...*consisting of approximately 40 contiguous surface acres, substantially in the form of a square that is a legal subdivision of the United States public land survey and is a governmental quarter-quarter section or lot.*”. See Rule 19.15.15.9.A. Rule 19.15.15.11 B(1) authorizes approval of non-standard units when necessitated by “*a variation in the legal subdivision of the United States public land surveys...*” In this circumstance, the variation results from the application of the *projected* survey.

7. The size of the proposed unit, 52.0 acres \pm , does not exceed 130% of a standard 40-acre unit under Rule 19.15.15.11B of the Divisions rules.

8. Designation of the non-standard unit will permit future development patterns in the surrounding projected units to remain consistent with the projected section subdivision boundaries. Approval of the non-standard unit will afford the Applicant the opportunity to produce its just and equitable share of hydrocarbons underlying the spacing unit, will avoid the drilling of unnecessary wells, will prevent waste and will protect correlative rights.

WHEREFORE Applicant requests that this Application be set for hearing before a duly appointed examiner of the Oil Conservation Division on December 16, 2010, and that after notice and hearing as required by law, the Division enter its Order approving the unorthodox well location and non-standard spacing unit.

Respectfully submitted,

MONTGOMERY & ANDREWS, PA

By: J. Scott Hall

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Attorneys for Approach Operating, LLC

00215857

CASE 14576

Application of Approach Operating, LLC for an unorthodox well location and non-standard oil spacing and proration unit, Rio Arriba County, New Mexico. Applicant seeks an order approving the unorthodox well location and non-standard oil well spacing and proration unit comprised of 52.0 ± acres located in the NW/4 NW/4 of projected Section 3, T27N, R4E in Rio Arriba County, New Mexico. The proposed non-standard unit will be dedicated to the following well to be drilled at an unorthodox well location to the Mancos Shale formation, WC Tierra Amarilla Mancos Oil Pool (97767):

Montano No. 1 Well
API No. 30-39-30858
939' FNL and 207' FWL (D)
Projected Section 3, T27N, R4E
Rio Arriba County, New Mexico

The well and lands are located approximately 1.5 miles Northeast of Las Nutrias, New Mexico.