

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

IN THE MATTER OF THE HEARING CALLED BY)		
THE OIL CONSERVATION COMMISSION FOR THE)		
PURPOSE OF CONSIDERING:)		
)	
APPLICATION OF NEARBURG EXPLORATION)		CASE NO. 12,622
COMPANY, L.L.C., FOR TWO NONSTANDARD)		
GAS SPACING AND PRORATION UNITS,)		
LEA COUNTY, NEW MEXICO)		
)	
IN THE MATTER OF THE HEARING CALLED)		CASE NO. 12,908-A
BY THE OIL CONSERVATION DIVISION)		
FOR AN ORDER CREATING, CONTRACTING,)		
REDESIGNATING AND EXTENDING THE)		
VERTICAL AND HORIZONTAL LIMITS OF)		
CERTAIN POOLS, LEA COUNTY, NEW MEXICO)		
)	(Consolidated)

OFFICIAL EXHIBIT FILE
(2 OF 3: Redrock Exhibits)
COMMISSION HEARING

BEFORE: LORI WROTENBERY, CHAIRMAN
 JAMI BAILEY, COMMISSIONER
 ROBERT LEE, COMMISSIONER

October 21st and 22nd, 2002
 Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Commission, LORI WROTENBERY, Chairman, on Monday, October 21st, and Tuesday, October 22nd, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

REDROCK OPERATING COMPANY

EXHIBIT BOOK

**New Mexico Oil Conservation Commission
Case 12622 & 12908
October 21 & 22, 2002**

**KELLAHIN & KELLAHIN
ATTORNEY AT LAW**

V. THOMAS KELLAHIN
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October 11, 2002

Ms. Lori Wrotenbery, Chairman

Hand Delivery

Ms. Jamie Bailey, Member

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Dr. Robert Lee, Member

Federal Express

Oil Conservation Commission
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

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Re: Redrock Operating LTD, Co.'s

Revised Prehearing Statement and Exhibits

NMOCD Case: 12622 (De Novo)
Application of Nearburg Exploration Company, LLC
for two non-standard gas spacing and proration units,
Lea County, New Mexico

NMOCD Case 12908 (DeNovo)
Division Nomenclature Case
Lea County, New Mexico

Dear Members of the Commission:

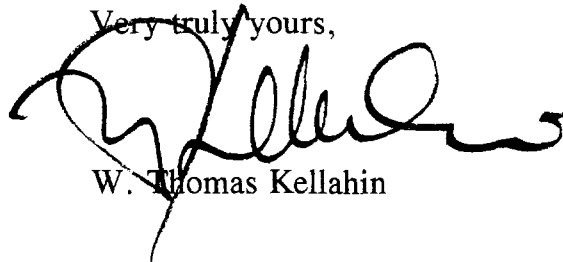
On behalf of Redrock Operating LTD, Co. and in accordance with Mr. Ross's instructions of September 26, 2002, please find enclosed our Revised Prehearing Statement and exhibits for the hearing set for October 21, 2002.

Replace original prehearing statement with revised prehearing statement

The exhibits submitted on September 4, 2002 are revised as follows:

- (1) Discard original Exhibit A(1) through A(4) and replace with revised exhibits A(1) through A(22)
- (2) Original Exhibit B-(1) through B(9) have been supplemented with large copies
- (3) Original Exhibits B-(4) should be renumbered as Exhibit B-(7)
- (4) Original Exhibit B-(7) should be renumbered as Exhibits B-(4)
- (5) Original Exhibits C-(1) through Exhibits C(9) should be renumbered as Exhibit (D)-(1) through Exhibit D-(9)
- (6) Insert new Exhibit C(1) (Seismic map)

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name.

W. Thomas Kellahin

cc: Steve Ross, Esq.
Attorney for the Commission
William F. Carr, Esq.,
Attorney for Nearburg
J. Scott Hall, Esq.
Attorney for Raptor

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

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 12622 (De Novo)
ORDER R-11768**

**APPLICATION OF NEARBURG EXPLORATION
COMPANY, L.L.C. FOR TWO NON-STANDARD
GAS SPACING AND PRORATION UNITS
LEA COUNTY, NEW MEXICO.**

**CASE NO. 12908-A
(Severed and Reopened)
ORDER R-11818**

**APPLICATION OF THE OIL CONSERVATION
DIVISION FOR AN ORDER CREATING,
CONTRACTING, REDESIGNATING, AND
EXTENDING VERTICAL AND HORIZONTAL
LIMITS OF CERTAIN POOLS IN LEA COUNTY,
NEW MEXICO.**

**REDROCK OPERATING LTD, CO'S
REVISED
PRE-HEARING STATEMENT**

This REVISED pre-hearing statement is submitted by Redrock Operating Ltd, Co., as required by the Oil Conservation Commission.

APPEARANCE OF PARTIES

APPLICANT (Nearburg)

Nearburg Exploration Company, LLC
3300 N. "A" St. Bldg. 2
Suite 120
Midland, Texas 79705
(915) 686-8235 (Bob Shelton)

ATTORNEY

William F. Carr, Esq.
Holland & Hart
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Santa Fe, NM 87504
(505) 988-4421

OPPONENTS

ATTORNEY

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Raptor Natural Pipeline, LLC

J. Scott Hall, Esq.
Miller, Stratvert & Torgerson
P. O. Box 1986
Santa Fe, NM 87504

CRITICAL ISSUES

There are three (3) critical issues in these cases:

- (1) How did Nearburg get itself into this mess; and what, if anything, should the Commission do;
- (2) Should the Commission continue to separate the Grama Ridge Gas Storage Unit in the W/2 of Section 34 from any Morrow production in the E/2 of Section 34 by separate pools designations with separate rules;

(3) Should Nearburg's Grama Ridge 34-1 Well in the NE/4 of Section 34 be dedicated to a standard 320-acre spacing unit consisting of the E/2 of Section 34 to a non-standard 160-acre spacing unit consisting of the NE/4 of Section 34, thereby excluding Redrock's overriding royalty interest.

INTRODUCTION

(1) This dispute involves Section 34, T21S, R34E, Lea County New Mexico.
Exhibit A-1 (chronology) and Exhibit A-2 (locator map)

(2) Raptor Natural Pipeline, LLC ("Raptor") is the current operator of the Grama Ridge Morrow Gas Storage Unit ("Gas Storage Unit") which includes the W/2 of Section 34, T21S, R34 E, and other acreage. R-4491 **See Exhibit A-9**

(3) Section 34 has been divided such that the W/2 is in the Grama Ridge-Morrow Gas Pool ("Gas Storage Pool") and the E/2 is in the East Grama Ridge-Morrow Gas Pool ("Nearburg's Pool"). **See Exhibit A-2**

(4) Section 34 was divided by the Division (Order R-5995 and R-6050) to separate and isolate the Gas Storage Unit in the W/2 from any Morrow production in the E/2 of Section 34. **See Exhibit A-3 and Exhibit A-4**

(5) The E/2 of Section 34 is a 320-acre spacing and proration unit ("GPU") originally dedicated to the Llano "34" State Well No. 1 located in the SE/4 of this section.

(6) The Applicant in Case 12622, Nearburg Exploration Company, L.L.C. ("Nearburg") seeks approval by the Division to subdivide this 320-acre GPU to create two non-standard 160 acre gas proration and spacing units as follows:

- (a) for Nearburg's Grama Ridge "34" State Well No. 1 ("Nearburg Well") located 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34 a unit consisting of the NE/4 of Section 34, T21S R34E for production from the East Grama Ridge Morrow Gas Pool; and
- (b) for the Llano "34" State Com Well No. 1 ("Llano Well") located 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34 a unit consisting of the SE/4 of Section 34, T21S R34E for production from the East Grama Ridge Morrow Gas Pool.

(7) On May 22, 2002, some 11 months after the Examiner's hearing, the Division entered Order R-11768 denying Nearburg's application and ordering the Well be shut-in. **See Exhibit A-21.**

(8) The Division Case 12908, at the request of Nearburg, attempted to extend the Gas Storage Pool and contract the Nearburg's Pool so that all of Section 34 would be in the GRM Pool.

(9) On August 1, 2002, the Division held a hearing and without evidence to support a change and without notice to Redrock or Raptor, and attempted to grant Nearburg's request.

(10) On August 19, 2002, Redrock Operating Ltd. Co. ("Redrock") and Raptor filed an objection to Case 12908 which was granted by the Division such that Case 12908 has been consolidated with Case 12622 for hearing before the Commission. **See Exhibit A-22**

OPPOSITION

(11) Redrock is a 10% overriding royalty owner ("ORRI") in the S/2 of Section 34 and would own a 5% ORRI in the Nearburg well if the E/2 of Section 34 is dedicated to the Nearburg well. If Nearburg's application is granted then Redrock would be excluded from an ORRI in the Nearburg well. **See Exhibit A-10**

(12) Redrock and Raptor oppose any change in the pool boundary which would put the E/2 of Section 34 into the same pool with the W/2 of Section 34..

(13) Redrock opposes Nearburg's attempt to exclude Redrock from a standard 320-acre spacing unit consisting of the E/2 of Section 34.

BACKGROUND

The evidence will demonstrate that:

(14) Order R-3006 dated December 3, 1965 created the Grama Ridge Morrow Gas Pool "GRM Pool" and adopted 640-acre spacing. By Order R-3080 dated July 1, 1966 extended pool to cover all of Section 34.

(15) The Grama Ridge Morrow Gas Pool "GRM Pool" consists of the gross Morrow interval, which includes many separate sand stringers, which vary greatly in aerial extent and in porosity and thickness, both within and among individual stringers.

(16) The vertical limits of the pool currently include all of the Morrow sands and have been administered by the Division as a single common source of supply ("reservoir") since 1965.

(17) Order R-4491 dated March 16, 1973, authorized the injection of gas for storage into specific intervals in the Grama Ridge Morrow Gas Pool in two wells one being the Grama Ridge Morrow Unit Well No. 2 in Unit L of Section 34.
See Exhibit A-4

(18) Order R-5995 dated May 2, 1979, OCD found that the Grama Ridge Morrow Gas Pool in the W/2 of section 34 is within an upthrust fault block bounded to the east by a NE-SW trending fault and on the west by a North-South trending fault. Found that 320-acres spacing was more appropriate for draining the pool. **See Exhibit A-5**

(19) On May 2, 1979, the OCD also approved an amended acreage dedication plat, which dedicated the W/2 of Section 34 to the Grama Ridge Unit #2 well

(20) Order R-6050 dated July 17, 1979, COD created the East Grama Ridge Morrow Gas Pool on statewide 320-acre spacing. **See Exhibit A-6**

(21) On July 3, 2001, the Division issued Order R-11611, which adopted Special Rules for the Gas Storage Unit. **See Exhibits A-9**

(22) On October 10, 1979 the "Llano Well" (originally drilled by Minerals, Inc. and now operated by Nearburg) located in Unit I (NE/4SE/) was completed in the East Grama Ridge Morrow Gas Pool "EGRM Pool" and a 320-acre gas proration and spacing unit consisting of the E/2 of Section 34 was dedicated to the well. For some 20 years, production from this well in the SE/4 was shared with the owners in the NE/4.

(23) On June 9, 2000, Nearburg completed its Grama Ridge East 34 State Well No. 1 ("Nearburg's well") in Unit H of Section 34. But instead of dedicating it to a gas proration and spacing unit (GPU") consisting of the E/2 of Section 34 and sharing that production as historically ordered, Nearburg is attempting to dedicate only their NE/4 to the well.

NEARBURG'S CONTENTIONS

(24) At the Examiner hearing, Nearburg argued that the Division's definition of "correlative rights" set forth in 19 NMAC 15.1.7(10) obligated the Division to exclude the owners in SE/4 of Section 34 from sharing in the production from the Nearburg well because: (i) there are only two Morrow sand stringers containing recoverable gas present in the Nearburg well; (ii) of those two, the GRE sand stringer has been perforated and produces gas; and (iii) that the GRE sand stringer is present in the Llano Well but has too low a porosity to be productive.

(25) Nearburg contends that the NE/4 and NW/4 of Section 34 were not fault separated but that Nearburg's well in the NE/4 did not affect the Gas Storage Unit probably due to a permeability pinch out in the reservoir.

(26) Nearburg's geologist presented his geologic interpretation to argue that the SE/4 should be excluded because he calculated a low porosity in the GRE sand stringer from the open hole neutron-density log for the Llano well and, thus, he contended that the SE/4 does not contain recoverable reserves from this Morrow GRE stringer which is productive in the Nearburg well. He further argued that the Lower Morrow "A" sand stringer is only present in the Nearburg well and the SE/4 owners should be excluded from sharing in any potential Morrow "A" production. To do otherwise, Nearburg contends, would dilute its interest in the recoverable reserves and impair its correlative rights.

(27) Nearburg's petroleum engineer then determined that the volume of recoverable gas from the "GRE" sand in the Nearburg Well was between 1.7 BCFG and 1.9 BCFG. See Examiner's Transcript page 108 lines 6-8

REDROCK'S GEOLOGIC CONTENTIONS **Faulting and Pool Separation**

(28) The E/2 of Section 34 is geologically isolated from the W/2 of the section. Supporting evidence for the separate pools are in the Exhibits listed below:

- A. **Redrock Exhibit B-1**
Structural Cross-Section exhibit B-B'
- B. **Redrock Exhibits B-2**
Structure Map on the Top of the Middle Morrow

C. Redrock Exhibits C-1
Seismic Maps

(29) The Nearburg well is fault isolated from the Gas Storage Unit: Faults were mapped in the area with a major and a minor fault trending SW/NE as noted on the submitted structure map. Support for the mapped faults are:

(A) The top of the Middle Morrow horizon in the two wells in the SW/4 of Section 27 and the SE/4 of Section 28 are -9,155 feet and -10,024 feet subsea, respectively, indicating a displacement on the fault of at least 869 feet.

(B) The top of the Middle Morrow in the Llano Well in the SE/4 of section 34 and the Nearburg Well in the NE/4 of Section 34 is -9,040 feet and -9,086 feet subsea, respectively, which demonstrates anti-regional dip in a geologically anomalous area.

(C) Log analysis of the Nearburg Well in the NE/4 of Section 34 on a Middle Morrow Sand interval at 13,058' - 13,125' calculates to be water productive even though it is 13 feet high to a correlative gas storage sand found in the Shell (Raptor) storage well in the SW/4 of Section 34

Isolation of the W/2 and Drainage of SE/4 of Section 34

(30) The Nearburg Well is producing from a reservoir that is isolated from the W/2 including the NW/4 of Section 34, as demonstrated on the following exhibit:

A. Redrock Exhibit B-3:
Stratigraphic Cross-Section exhibit A-A'

B. Redrock Exhibits C-1
Seismic maps

(31) The Nearburg Well is producing from a reservoir that extends into the SE/4 of Section 34. Redrock's evidence demonstrates that the Morrow sands were deposited in a lenticular nature in the mapped area with limited aerial extent. The Middle Morrow "GRE" Sand is present and productive in the Nearburg well located in the NE/4 of

Section 34, and present in the Minerals Llano well in the SE/4 of the section, but absent in the Shell (Raptor) Grama Ridge storage well in the SW/4 of the section. Supporting evidence is presented in the exhibits below:

A. Redrock Exhibit B-4

Middle Morrow "GRE" sand Gross Sand Isopach Map

B. Redrock Exhibits B-5

Net Porosity Isopach Map with porosity equal to or greater than 8% on the "GRE" sand

C. Redrock Exhibit B-6

Net Porosity Isopach Map with porosity equal to or greater than 8% on the "A" sand

D. Redrock Exhibits B-7

Total Gross Morrow Sand Isopach Map on the Morrow Sands

E. Redrock Exhibit B-8

Total Net Morrow Sand Isopach Map with porosity equal to or greater than 8% on the Morrow Sands

F. The orientation of the Morrow sand deposition in Section 34 and surrounding area is north to south. There is no evidence of the "GRE" Sand extending into the NW/4 of Section 34, but there is evidence that the "GRE" Sand extends into the SE/4 of section 34 due to the presence of six feet of gross "GRE" Sand found in the Neutron Density and Mud Log for the Llano Well located in the SE/4 of section 34. A standup, 320 acre unit oriented as the E/2 of section 34 would be the correct proration unit given the drainage characteristics and orientation of the reservoir.

G. Redrock Exhibits B-9

Llano 34 State Com. #1 well, located in the SE/4 of Section 34, Mud Log exhibit indicates the presence of gas in the "GRE" sand and a 1-2 foot gas flare in the top and a 3-4 foot gas flare at the base of the "GRE" sand.

Spacing Unit

(32) That a spacing unit orientated and dedicated to the E/2 of Section 34 contains more productive acres than an N/2 orientation. **See Redrock geologic exhibits B-1 through B-9**

Pool Boundaries

(33) That the E/2 of Section 34 should remain in the East Grama Ridge-Morrow Gas Pool and the W/2 of Section 34 should remain in the Grama Ridge-Morrow Gas Pool. **See Redrock's geologic Exhibits B & C**

REDROCK'S PETROLEUM ENGINEERING CONTENTIONS

(34) Redrock's petroleum engineering evidence will demonstrate that the petroleum engineering assumptions and calculations contain in Examiner Order R-11768 are correct. See Order R-11768 Finding (10). **See Redrock Exhibit A-21**

(35) Redrock's analysis of the reservoir performance of the Nearburg Well compared to the Gas Storage Unit demonstrates that the interval in the Morrow formation being used for the Gas Storage Unit is not in communication with Nearburg's well.

(36) Redrock's petroleum engineer has concluded that:

- A. The Nearburg Well is producing from a reservoir that is isolated from the Gas Storage Unit's reservoir, and appears to be pressure depleting. **See Redrock Exhibit D-1 and D-2**
- B. The GRE Sand in Nearburg's Well has an original gas in place of 1.6 BCFG based on a Material Balance (P/Z) analysis. **See Redrock Exhibits D-3**
- C. The GRE sand as mapped by Redrock has a calculated Gas in Place estimate of 1.9 BCFG, which is consistent with Nearburg's engineer's previous testimony of reserves. See Transcript page 108 lines 6-8 **See Redrock Exhibits D-3.**

D. The neutron-density logs in all wells including the Llano well have a limited areal extent of no greater than 6 feet from the wellbore.

REDROCK'S CRITICISM OF NEARBURG'S EVIDENCE

(37) In opposition, Redrock contends that Nearburg's geologic and petroleum engineering evidence demonstrates that:

(A) the GRE sand stringer being produced in the Nearburg well also is present in the SE/4 of Section 34.

(B) Nearburg's geologic interpretation of the GRE sand stringer and its argument for two non-standard 160-acre gas units, hinges primarily on the data captured by the neutron-density log of the Llano well.

(C) Nearburg's geologic interpretation is subjective, speculative and inadequate to form a reasonable basis for granting Nearburg's application because Nearburg's contention that the SE/4 of this section does not contain recoverable reserves from the GRE sand stringer relies solely on its interpretation of porosity from an open hole neutron-density porosity log taken in the Llano Well.

(D) Since all neutron-density logs, including the Llano Well log, only investigate a limited radial porosity extent from any wellbore, there is no substantial evidence to definitively determine that the GRE net pay sand does not extend into the SE/4;

(F) Nearburg's geologic presentation is not definitive enough to show that the SE/4 of Section 34 does not contribute recoverable hydrocarbons in the GRE Sand stringer.

(G) Nearburg's geologist testified that he was not aware of any other application, which attempted to vertically separate individual strings of the defined Morrow interval as Nearburg was seeking to do.

(H) Nearburg failed to provide substantial evidence as to the amount of original gas in place in the GRE sand, and its two experts could not agree:

(i) based upon Nearburg's geologist isopach of the GRE sand that volume was 2.7 BCF of gas.
See Transcript page 108 lines 2-3

(ii) based upon Nearburg's petroleum engineer's estimates that volume ranged from 1.1 BCFG to 1.9 BCFG. **See Transcript page 103 lines 4-5; page 105 lines 1-2; page 107 lines 7-6 and 15-16**

(I) the Llano Well located in Unit I of Section 34 was dedicated to the E/2 of Section 34 and produced some 4.1 BCF of gas, most of which was from certain sands stringers located within the defined Lower Morrow "B" interval just above the sand designated by Nearburg as the "GRE" sand stringer, which is present in the Llano Well and also included within the defined Lower Morrow "B" interval;

(J) Nearburg ignores the fact that production from the Llano Well was shared with the owners in the NE/4 of Section 34 despite the fact that Nearburg's geologist concluded that the Morrow sand stringer in the Nearburg Well calculated to be too wet to produce and in his opinion the NE/4 did not contribute any reserves to the Llano well.

(K) Nearburg's geologist ignored the fact that the GRE sand currently being produced in the Nearburg Well is present in the Llano Well and is structurally higher in the Llano Well than in the Nearburg Well.

(L) Nearburg ignored the fact that Division Order R-6050 concluded that the NE/4 and SE/4 of Section 34 should share in production from the Morrow formation.

(M) Nearburg's geologist did not isopach the Morrow sand stringer produced in the Llano well nor any other sand stringer in the Morrow formation except for the GRE and A sand stringers.

(N) Nearburg's geologist ignored the regional North-South deposition orientation of Morrow Sands in orienting the deposition of the "GRE" Sand.

(O) Nearburg's geologist and petroleum engineer were in disagreement about the total volume of gas and the total size of the GRE sand "reservoir". Nor could Nearburg's petroleum engineer confirm the shape and orientation of the GRE sand stringer as interpreted by its geologist. **See Transcript page 110 lines 16-25**

(P) In addition, Nearburg's geologist could not testify as to the exact shape or orientation of either of Nearburg's Morrow stringers.

(Q) by maintaining the historical 320-acre spacing unit consisting of the E/2 of this section, waste will be prevented and correlative rights well be protected and the Division will maintain consistency in the treatment of the GPU within the Division's regulations and historical practices.

NEARBURG'S PERMITTING OF ITS WELL

(38) Nearburg contended that it mistakenly believed that the N/2 of Section 34 was available for dedication to its well and relied upon the fact that on February 8, 2000, the Division's Hobbs office had approved the Nearburg application for permit to drill.

(38) Nearburg's senior landman testified that prior to drilling the Nearburg well,

(i) he did not know that Nearburg's proposed N/2 spacing unit would include portions of two separate pools in violation of Division's rules;

(ii) he made no effort to determine the pool rules applicable for the Morrow in Section 34 nor did he make any effort to search the Division's well files or records to determine the availability of the N/2 of Section 34 for a standard 320-acre gas spacing unit;

(iii) Nearburg failed to check if any portion of Section 34 was dedicated to the gas storage unit before drilling its well;

(iv) Nearburg has not, and sees no need to improve their spacing unit research process regarding this situation to prevent similar problems in the future.

(v) instead, he simply relied upon the new State of New Mexico oil & gas lease, a N/2 Section 34 drill site title opinion which was ordered by Nearburg to conform with their "presumed" unit, and the Division's approval of the Nearburg Application for Permit to Drill ("APD")

(39) Nearburg spudded the well on March 7, 2000.

(40) In July, 2000, the Division Hobbs office notified Nearburg by telephone that the N/2 spacing unit could not be allowed and that Nearburg would have to change the acreage dedication.

(41) On January 8, 2001, some six months after being notified, Nearburg finally filed an administrative application seeking two non-standard 160-acre gas units.

(42) Nearburg never attempted to dedicate its well to the 320-acre spacing unit consisting of the E/2 of Section 34, nor did Nearburg explore any other solutions or options.

(43) On January 29, 2001, Nearburg sent notice to Redrock of Nearburg's administrative application. On February 12, 2001, Redrock filed an objection and this matter was set for hearing on March 22, 2001 and then continued repeatedly until June 28, 2001.

(44) By the time of the hearing, the Nearburg well had produced in excess of 900 MMCF of gas.

(45) Subsequent to the OCD denying a N/2 unit in section 34, Nearburg applied for a 160 acre non standard unit simply because at the time the well was completed Nearburg would potentially lose 50% of the working interest in the well if an E/2 320 acre unit was approved as a production unit. Nearburg has since purchased the lease in the south half of section 34 in order to reduce their potential loses if an E/2 320 acre unit is granted by the OCD.

THE COMMISSION'S DECISION

(46) The Commission should find that:

(A) it violates the correlative rights of the owners in the SE/4 to now exclude them from participation in production from the Nearburg well

(B) Nearburg's application amounts to nothing more than down spacing the pool after the fact--the only purpose for which is the allow Nearburg to avoid responsibility for their negligence at the expense of the owners in the SE/4 of this section;

(C) by granting Nearburg's application, the Commission would establish the precedent whereby the operator of any such Morrow "infill" well can be granted an exception from Rule 104 based upon the subjective interpretation of the limited horizontal extent of certain individual Morrow sand stringers;

(D) the approval of Nearburg's application will circumvent Division Rule 104 by effectively "downspacing" a spacing unit "after" the fact;

(E) Nearburg's geologic presentation simply validates the recent modifications of Rule 104, which now allows for an infill well on a 320-acre GPU;

(F) by granting Nearburg's application, the Commission will be a party to a total disregard for interest owners' correlative rights by allowing an operator, for its own selfish interests, to reconfigure spacing unit size and/or orientation after the original (Llano well) and infill well (Nearburg well) have been drilled and produced;

(G) by granting Nearburg's application, the Commission will establish a precedent which will allow any operator choosing

to drill an infill well on an existing 320-acre unit to simply carve out half the unit by asking for a 160-acre non-standard unit based upon the vertical and horizontal discontinuous nature of the Morrow sand stringers;

(H) granting Nearburg's application will substantially alter and disrupt the regulatory system of the New Mexico Oil Conservation Division:

(1) by requiring the reallocation of past and future production based upon geologically constructed spacing units created after the wells are drilled and produced; and

(2) creating the opportunity to alter existing spacing units every time there is a change in ownership between portions of those units.

(I) the commission should confirm the commission's previous finding that the Nearburg is draining the SE/4 well. See Order # R-11768

THE COMMISSION SHOULD
AFFIRM THE DIVISION ORDER R-11768 THAT:

(47) Nearburg's application should be **denied**.

(48) Nearburg's well shall remain shut-in pending the following:

(a) dedication of a 320-acre spacing unit consisting of the E/2 of Section 34;

(b) declaration of a single Division approved operator for the E/2 of Section 34;

(c) voluntary consolidation of E/2 of Section 34 to well, or in the absence of such agreement, a Division compulsory pooling order;

(d) immediate reallocation and payment of proceeds from the date of first production to all interest owners based upon an E/2 320-acre dedication unit in section 34.

PROPOSED EVIDENCE

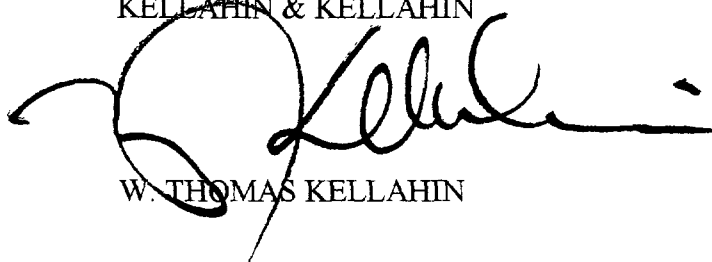
Redrock Operating Ltd. CO.

WITNESSES	EST. TIME	EXHIBIT
James Brezina (geology)	60 Min.	@ "B" exhibits
John Duffield (geophysicist)	60 Min	@ "C" exhibits
John Wells (PE)	60 Min.	@ "D" exhibits

PROCEDURAL MATTERS

Pending

KELLAHIN & KELLAHIN

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over a horizontal line. The signature is stylized with a large, circular initial 'W' and a long, sweeping horizontal stroke.

W. THOMAS KELLAHIN