

SAN JUAN GAS CORPORATION

EXHIBIT NO. 7

CASE NO. 1066

MAY 16, 1956

FOSTER MORRELL  
PETROLEUM CONSULTANT  
NICKSON HOTEL BUILDING  
ROSWELL, NEW MEXICO

May 9, 1956

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The Director  
U. S. Geological Survey  
Department of the Interior  
Washington, D. C.

Re: Area, Drilling Program, and  
Form of Unit Agreement  
Gavilan Unit, Rio Arriba County  
New Mexico.

Dear Sir:

Pursuant to the regulations of December 22, 1950, 30 C.F.R. 226.3 and 226.4, San Juan Gas Corporation, 1716 First National Building, Tulsa, Oklahoma, hereby applies for designation of the following-described lands as an area logically subject to development under a unit agreement, to be known as the Gavilan Unit:

New Mexico Principal Meridian

Township 24 North, Range 2 West

Sections 1 and 2:	All
Section 3:	E/2, E/2 W/2
Section 10:	E/2
Sections 11 through 14, incl.:	All
Section 15:	E/2
Section 22:	E/2
Sections 23 through 27, incl.:	All
Section 33:	S/2
Sections 34 through 36, incl.:	All

Township 25 North, Range 2 West

Sections 1 through 30, incl.: All  
Sections 33 through 36, incl.: All

containing 30,244.18 acres, more or less.

The described area adjoins to the north and east the approved Lindrith Unit Area in which discoveries of gas in paying quantities have been made in the Pictured Cliffs formation and oil in quantities not sufficient to justify the establishment of a participating area was found in the Dakota formation.

The subject lands are located on and are a part of a monoclinial dip slope to the west and northwest in the extreme southeastern portion of the geologic structural feature comprising the San Juan Basin. There are no local geologic or

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geophysical anomalies apparent on which to delineate an area for unitization. The unit area has been selected on a township basis similar to other units in Rio Arriba County.

The Gavilan Unit Area embraces a total of 30,244.18 acres, of which 20,023.94 acres or 66.21% are Federal lands, 320.00 acres or 1.6% are State of New Mexico lands and 9,900.24 acres or 32.73% are patented lands.

During the period from 1948 through 1952, a total of eleven wells were drilled within the unit area. Six wells, presently shut-in, were completed for gas production from the Pictured Cliffs formation in reported volumes ranging from 277,000 to 1,050,000 cubic feet of gas per day, generally after shooting. Two wells tested the Mesaverde formation and one well, the Dakota, and are temporarily abandoned. There is no market outlet for the gas and no further drilling was conducted in the area until March 1956 after concerted effort by San Juan Gas Corporation to obtain operating rights to warrant sufficient drilling to assure pipeline connections and to justify operations under a unit agreement. It is the opinion of your applicant that with present day knowledge of completion practices, including sand-oil and sand-water fracing, production in paying quantities can be developed from the Pictured Cliff formation, and if successful as anticipated, the Mesaverde will also be tested and developed.

Preliminary discussions as to the form of unit agreement were had with the Regional Oil and Gas Supervisor and representatives of the Washington office. The Supervisor expressed himself in favor of the standard form of agreement primarily on the basis of the question as to whether one well would establish sufficient drainage from 320-acre tract from the Pictured Cliffs formation, but your applicant feels that the establishment thereunder of scattered participating areas would be difficult to administer without prior agreement by the parties involved and that one Pictured Cliffs well will adequately drain 320 acres in most, if not all, cases. Your applicant and the representatives of the Washington office at a meeting on March 8, 1956, expressed themselves as preferring the township or so-called drilling block type of unit agreement such as approved by your office for development of the San Juan Basin in Rio Arriba County since November 1952.

Of the total of seventeen drilling-block units in Rio Arriba County, the Pictured Cliffs formation is now being developed on such basis in the San Juan 28-7, 29-4 and 30-4 Units and the Canyon Largo Unit and should shortly be developed within the San Juan 27-4 and 27-5 Units. Your applicant is requesting only that it be afforded the opportunity to develop the Gavilan Unit on an equal basis. Furthermore, the Oil Conservation Commission of New Mexico by Order No. R-794 in Case No. 977, under date of April 19, 1956, approved the creation of the Tapacito-Pictured Cliffs gas pool in T. 25 N., R. 3 W., and T. 26 N., Rs. 3 and 4 W., and established for a temporary period of one year 320-acre drilling units within said pool. The area affected by said order extends to within one mile of the western boundary of the Gavilan unit area.

In consideration of all the factors involved including those mentioned above, your applicant has prepared and is submitting herewith for your consideration and approval as to form three (3) copies of a unit agreement providing for 320-acre drilling blocks to the base of the Mesaverde formation, such drilling blocks to

By \_\_\_\_\_  
Its Agent