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September 24, 1993

HAND-DELIVERED

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503



Re: Case Nos. 10807, 10808 and 10809:
Applications of Kinlaw Oil Corporation for Horizontal Drilling, Lea County,
New Mexico

Dear Mr. Stogner:

Enclosed are Kinlaw Oil Corporation's proposed Order of the Division in each of the above-referenced cases. As you will note, I have included provisions in these orders which address concerns expressed by the New Mexico State Land Office (Findings 3 and 4 and Order Paragraph 1) and also provisions which limit any allowable to the allowable ordinarily assigned to tracts which are actually penetrated by the subject wellbores (Findings 8, 9 and 13, and Order Paragraphs 5 and 6 in the proposed Orders for Cases 10807 and 10909). I have also enclosed a floppy disk which contains these proposed Orders.

If you need anything further from me to proceed with your consideration of these applications, please advise.

Very truly yours,

WILLIAM F. CARR

WFC:mlh

Enclosures

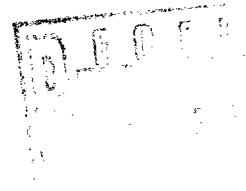
cc: Mr. Mike Hill (w/enclosures)

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. 10809
Order No. R-_____

APPLICATION OF KINLAW OIL CORPORATION
FOR A HIGH ANGLE/HORIZONTAL
DIRECTIONAL DRILLING PILOT PROJECT,
SPECIAL OPERATING RULES THEREFORE,
A NON-STANDARD OIL PRORATION UNIT,
AN UNORTHODOX WELL LOCATION, AND
A SPECIAL PROJECT OIL ALLOWABLE,
LEA COUNTY, NEW MEXICO.



**KINLAW OIL CORPORATION'S PROPOSED
ORDER OF THE DIVISION**

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on September 23, 1993, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this _____ day of September, 1993, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Kinlaw Oil Corporation ("Kinlaw") seeks authority to initiate a horizontal directional drilling pilot project located on a non-standard oil proration unit comprised of Lots 1 and 8 of Section 5, Township 16 South, Range 38 East, NMPM, South Denton-Devonian Pool, Lea County, New Mexico ("Project Area"). Applicant also seeks the promulgation of special provisions within said Project Area including special well location requirements and special allowable considerations.

(3) The Project Area is comprised of State lands with common working interest and royalty interest.

(4) The State Land Office does not object to this application but has conditioned its approval upon the applicant's obtaining such commercial leases as are necessary from the State Land Office Commercial Division.

(5) Kinlaw proposes to reenter its V. F. Petroleum Huber State Well No. 1 located at an unorthodox surface location 330 feet from the North line and 1150 feet from the East line (Unit A) of said Section 5 which was previously approved by Division Order No. R-6608 entered in Case 7173 on March 6, 1981.

(6) The proposed horizontal well would be located within the boundaries of the South Denton-Devonian Pool and, as such, would be subject to general rules and regulations for oil pools which require 40-acre spacing and proration units with wells to be located no closer than 330 feet from the outer boundary of the unit.

(7) Kinlaw further proposes to complete said well in the following manner:

Directionally drill said well by kicking off from the vertical in the Devonian formation at a depth of approximately 12,868 feet to 12,915 feet, drill a short-radius curve in such a manner as to penetrate the Devonian formation horizontally, utilize existing and proven technology to drill horizontally within the Devonian formation in a southeasterly direction a distance of 500 feet to 700 feet, and produce the Devonian formation throughout the entire horizontal interval.

(8) Since the applicant testified that the producing interval in the well may or may not extend into Lot 8 of Section 5, the Project Area for this well should be comprised of only the tracts which are actually penetrated by the subject wellbore.

(9) The allowable assigned to the well shall be limited to the total of the allowables assigned to the tracts included in the Project Area.

(10) The applicant presented evidence which indicates the producing interval in the well would be located a minimum distance of 330 feet from the outer boundary of the proration unit, as such, would not encroach upon offsetting proration units, thereby protecting correlative rights.

(11) Testimony by the applicant further indicated that this type of well completion should result in the recovery of a substantially greater amount of oil than would normally be recovered by a conventional well completion, thereby preventing waste.

(12) All offset acreage is operated by Kinlaw Oil Corporation, and, therefore, there are no offset operators affected by the proposed horizontal directional drilling project.

(13) In the interest of conservation, prevention of waste, and protection of correlative rights, the application of Kinlaw Oil Corporation for a horizontal directional drilling project should be approved provided, however that (a) the bottomhole location of the well should not be located closer than 330 feet to the outer boundary of the Project Area; (b) the applicant should be required to conduct a directional survey on the well during the drilling of or after the completion of drilling operations on the well, and submit to the Santa Fe office of the Division a copy of said directional survey; (c) the Project Area for this well should include only those lots actually penetrated by the subject wellbore; and (d) an allowables should be established for this Project Area which is equal to the total of the allowables assigned to the tracts included in the Project Area.

IT IS THEREFORE ORDERED THAT:

(1) The application of Kinlaw Oil Corporation for a horizontal directional drilling pilot project consisting of Lots 1 and 8 of Section 5, Township 16 South, Range 38 East, NMPPM, South Denton-Devonian Pool, Lea County, New Mexico, is hereby approved.

PROVIDED HOWEVER, the applicant shall confer with the New Mexico State Land Office and obtain through its Commercial Division any commercial lease required by that office prior to producing this well.

(2) The applicant is further authorized to reenter its V. F. Petroleum Huber State Well No. 1 at a previously approved unorthodox surface location 330 feet from the North line and 1150 feet from the East line of Section 5, in the following manner:

Directionally drill said well by kicking off from the vertical in the Devonian formation at a depth of approximately 12,868 feet to 12,915 feet, drill a short-radius curve in such a manner as to penetrate the Devonian formation horizontally, utilize existing and proven technology to drill horizontally within the Devonian formation in a southeasterly direction a distance of 500 feet to 700 feet, and produce the Devonian formation throughout the entire horizontal interval.

(3) The bottomhole location of the proposed well shall not be located closer than 330 feet to the outer boundary of the Project Area.

Case No. 10809

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(4) The applicant shall conduct a directional survey on the proposed well during the drilling or after the completion of drilling operations on the well and shall submit to the Santa Fe office of the Division a copy of said directional survey.

(5) The Project Area shall include only those lots actually penetrated by the subject wellbore.

(6) The Project Area shall be assigned an allowable equal to the total of the allowables assigned to the tracts included within the Project Area.

(7) Jurisdiction is hereby 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LeMAY
Director

S E A L



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

ANITA LOCKWOOD
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(505) 827-5800

November 3, 1993

CAMBELL, CARR, BERGE
& SHERIDAN
Attorneys at Law
P. O. Box 2208
Santa Fe, New Mexico 87504

RE: CASE 1 0809
ORDER NO. R-10013

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Sally E. Martinez
Sally E. Martinez
Administrative Secretary

cc: BLM Clerk's Office
Donna McInald - OCD