

REDROCK OPERATING COMPANY

EXHIBIT BOOK

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

**KELLAHIN & KELLAHIN
ATTORNEY AT LAW**

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October 11, 2002

Ms. Lori Wrotenbery, Chairman

Hand Delivery

Ms. Jamie Bailey, Member

Hand Delivery

Dr. Robert Lee, Member

Federal Express

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

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:

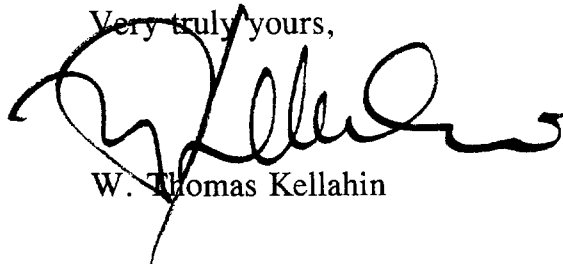
On behalf of Redrock Operating LTD, Co. and in accordance with Mr. Ross's instructions of September 26, 2002, please find enclosed our Revised Prehearing Statement and exhibits for the hearing set for October 21, 2002.

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', with a large, stylized initial 'W'.

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.
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(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 losses 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

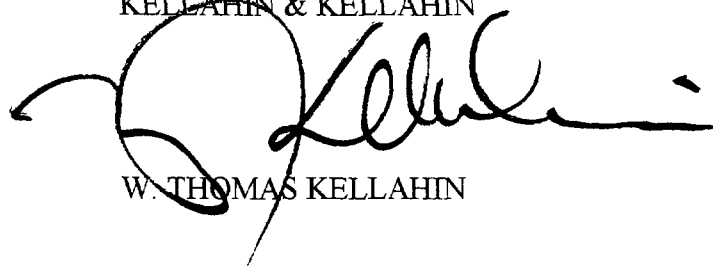
Redrock Operating Ltd. CO.

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 circular stamp. The signature is fluid and cursive, with a large initial 'W' and 'K'.

W. THOMAS KELLAHIN

REDROCK'S CHRONOLOGY

(1) This dispute involves Section 34, T21S, R24E, Lea County, New Mexico. See **Exhibit A-2 (chronology) and Exhibit A-2 (locator map)**

(2) Section 34 was divided by the Division (Orders R-2792, R-4491, R-5995, R-6050, R-6051, and R-7582) 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 through Exhibit A-8**

(3) 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-11611 See **Exhibit A-9**

(4) The Gas Storage Pool has its own special rules to protect the gas storage unit. See **Exhibits A-9**

(5) 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**

(6) 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 ("the Llano Well") located in the SE/4 of this section. See **Exhibit A-2**

(7) On March 1, 1998, Redrock Operating Ltd., Co. obtained an interest in the S/2 of Section 34, and thereafter on May 27, 1999, retained a 10% overriding royalty interest therein. See **Exhibit A-10**

(8) On January 1, 2000, Great Western Drilling Company obtained an oil & gas lease from the Commissioner of Public Lands for New Mexico ("NMSLO") for the N/2 of Section 34.

(9) On February 28, 2000, Nearburg filed a request for approval of the APD for its Grama Ridge 34-1 Well ("Nearburg's Well") in the NE/4 to be dedicated to a standard 320-acre spacing unit consisting of the N/2 of Section 34. See **Exhibit A-11**

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

(11) 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") Examiner Transcript 34-38
See Exhibit A-12

(12) On March 3, 2000, Nearburg spudded the Nearburg well and on June 9, 2000, completed it for production from the Morrow formation.

(13) On June 27, 2000, Nearburg filed its completion report with the Division. **See Exhibit A-13**

(14) 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.

(15) On January 8, 2001, some six months after being notified, Nearburg finally filed an administrative application with the Division seeking to subdivide this 320-acre GPU to create two non-standard 160 acre gas proration and spacing units as follows:

- (a) for Nearburg's Well located in 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 in 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. **See Exhibit A-14**

(16) Nearburg's administrative application is based upon two factors (i) the existence of a fault separating the NW/4 from the NE/4 of Section 34, and (ii) Nearburg representation that all of the owners in the E/2 of Section 34 were in agreement to subdivide the E/2 into 2 non-standard 160-acres units. **See Exhibit A-14 at page 2 and 3**

(17) Nearburg sought support from the Commissioner of Public Lands for New Mexico ("NMSLO") for Nearburg's effort to create a non-standard 160-acre spacing unit for this well. **See Exhibits A-15 through A-17**

(18) By letter dated December 11, 2001, the SLO advised Nearburg that "NMSLO believes that all issues (i.e., the size of the spacing unit, whether to rescind the shut-in order, and whether to require the escrow of working interest funds) are properly resolved by the OCD, and NMSLO will support any decision of OCD that is based on substantial evidence presented to OCD at hearing."

See Exhibit A-18

(19) 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.

(20) 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. **See Exhibits A-19 and A-20**

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

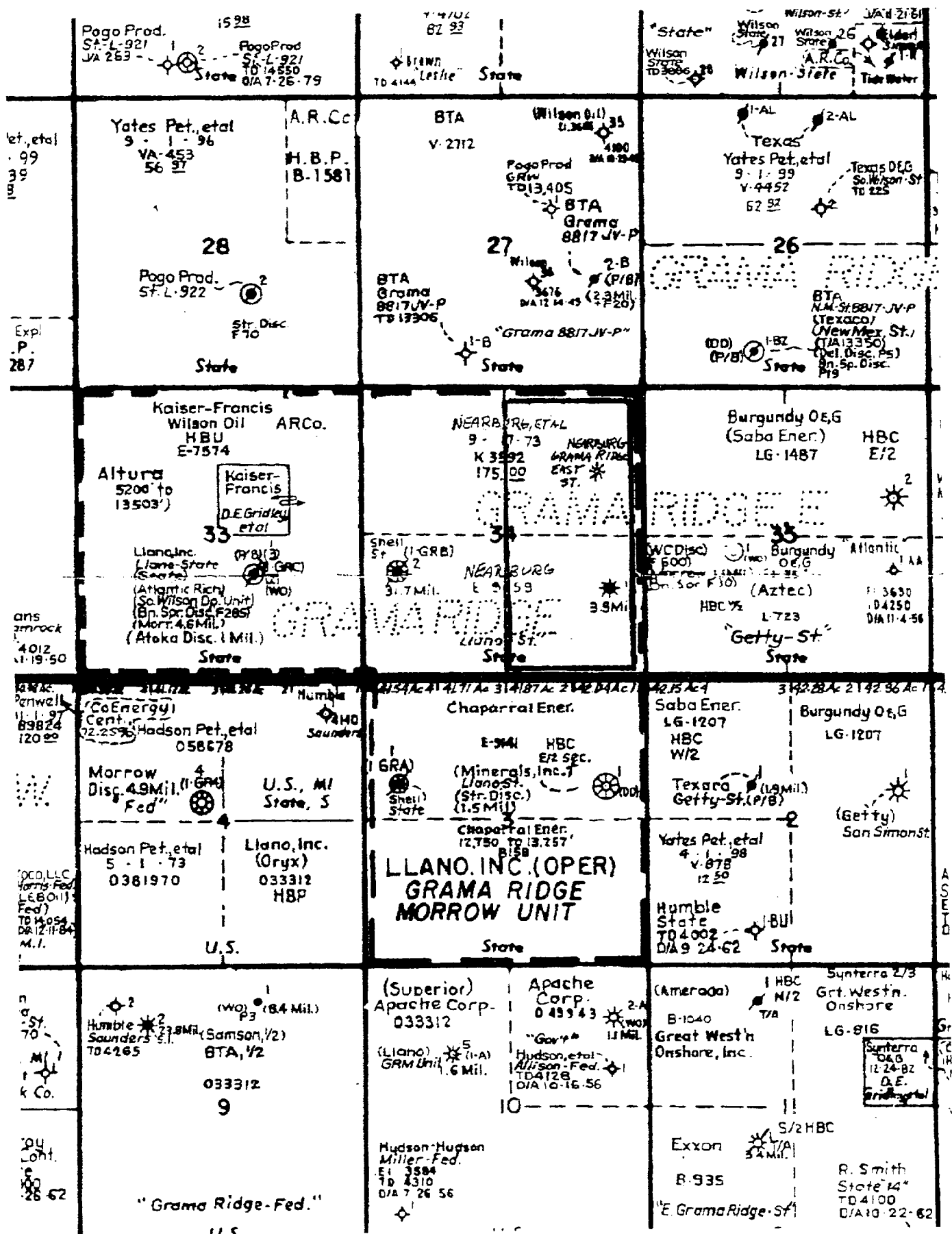
(22) On May 22, 2002, some 11 months after the Examiner's Hearing, the Division entered Order R-11768 denying Nearburg's application and order that the Well be shut-in. **See Exhibit A-21.**

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

(24) On August 1, 2002, the Division held a hearing in Case 12908 and without evidence to support a change and without notice to Redrock or Raptor, and attempted to grant Nearburg's request

(25) On August 19, 2002, Redrock and Raptor filed an objection to Case 12908, which was granted by the Division such that the Grama Ridge Pool boundary would be consolidated with Case 12622 for hearing before the Commission. **See Exhibit A-22**

Hearing Date: October 21 & 22, 2002



BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-3**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

CASE No. 3128
Order No. R-2792

APPLICATION OF SHELL OIL COMPANY
FOR APPROVAL OF THE GRAMA RIDGE
UNIT AGREEMENT, LEA COUNTY, NEW
MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a.m. on October 13, 1964, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 21st day of October, 1964, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Shell Oil Company, seeks approval of the Grama Ridge Unit Agreement covering 3051.92 acres, more or less, of State and Federal lands described as follows:

LEA COUNTY, NEW MEXICO
TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 34: All

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: N/2
Section 4: All
Section 5: SE/4
Section 8: All
Section 9: All

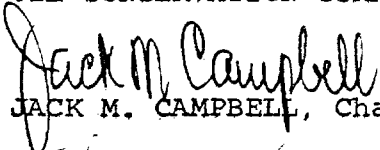
(3) That approval of the proposed unit agreement should promote the prevention of waste and the protection of correlative rights within the unit area.

IT IS THEREFORE ORDERED:

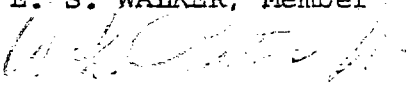
- (1) That the Grama Ridge Unit Agreement is hereby approved.
- (2) That the plan contained in said unit agreement for the development and operation of the unit area is hereby approved in principle as a proper conservation measure; provided, however, that notwithstanding any of the provisions contained in said unit agreement, this approval shall not be considered as waiving or relinquishing, in any manner, any right, duty, or obligation which is now, or may hereafter be, vested in the Commission to supervise and control operations for the exploration and development of any lands committed to the unit and production of oil or gas therefrom.
- (3) That the unit operator shall file with the Commission an executed original or executed counterpart of the unit agreement within 30 days after the effective date thereof; that in the event of subsequent joinder by any party or expansion or contraction of the unit area, the unit operator shall file with the Commission within 30 days thereafter counterparts of the unit agreement reflecting the subscription of those interests having joined or ratified.
- (4) That this order shall become effective upon the approval of said unit agreement by the Commissioner of Public Lands for the State of New Mexico and the Director of the United States Geological Survey; that this order shall terminate ipso facto upon the termination of said unit agreement; and that the last unit operator shall notify the Commission immediately in writing of such termination.
- (5) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


JACK M. CAMPBELL, Chairman


E. S. WALKER, Member


A. L. PORTER, Jr., Member & Secretary

S E A L

esr/

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

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

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-4**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

CASE NO. 4896
Order No. R-4491

APPLICATION OF LLANO, INC.,
FOR GAS INJECTION, LEA
COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on January 17, 1973, at Santa Fe, New Mexico, before Examiner Elvis A. Utz.

NOW, on this 16th day of March, 1973, the Commission, a quorum being present, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Llano, Inc., is the operator of the Grama Ridge Morrow Unit Area comprising some 1280 acres, more or less, of lands in Section 34, Township 21 South, Range 34 East, NMPM, and Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) That the applicant proposes to inject purchased gas for storage purposes into its State GRA Well No. 1 located in Unit E of the aforesaid Section 3 and its State GRB Well No. 1 located in Unit L of the aforesaid Section 34, injection to be into the perforated intervals from 12,827 to 12,847 feet, 12,984 to 12,985 feet, and 13,010 to 13,021 feet in said State GRA Well No. 1, and the perforated intervals from 12,921 to 12,934 feet, 13,020 to 13,022 feet, and 13,051 to 13,073 feet in said State GRB Well No. 1, all of said perforations being into irregular and non-continuous sands embedded in the shale matrix of the Morrow formation, Grama Ridge Morrow Gas Pool.

(4) That while there are other wells than the aforesaid State GRA Well No. 1 and State GRB Well No. 1 producing from the Morrow formation of said Grama Ridge-Morrow Gas Pool, the evidence indicates that said other wells are producing from separate sand stringers not in communication with the proposed injection zones.

(5) That the applicant proposes to initiate and conduct its gas storage operations in the subject wells in accordance with a 3-phase plan as follows:

Phase I - General conditioning of downhole well equipment and installation of surface, testing and metering facilities. Pilot test in order to determine by pressure analysis the limits of the Morrow reservoir and the compatability for gas storage.

Phase II - First installation of permanent compression equipment to expedite fill-up operation after soundness of underground Morrow reservoir is established.

Phase III - Installation of additional compression after evaluation of Phase II has corroborated the reservoir limits as determined in the Phase I evaluation and final fill-up to 2500 psig surface pressure.

(6) That the injection of gas into the subject wells for gas storage purposes, and the subsequent withdrawal of such gas for transportation to market, will not cause waste nor violate correlative rights, and should be approved.

IT IS THEREFORE ORDERED:

(1) That the applicant, Llano, Inc., is hereby authorized to inject gas for storage purposes, and to subsequently withdraw such gas, in the perforated intervals from 12,827 to 12,847 feet, 12,984 to 12,985 feet, and 13,010 to 13,021 feet in its State GRA Well No. 1 located in Unit E of Section 3, Township 22 South, Range 34 East, NMPM, and in the perforated intervals from 12,921 to 12,934 feet, 13,020 to 13,022 feet, and 13,051 to 13,073 feet in its State GRB Well No. 1 located in Unit L of Section 34, Township 21 South, Range 34 East, NMPM, Grama Ridge-Morrow Gas Pool, Lea County, New Mexico.

(2) That the applicant shall notify the Santa Fe and Hobbs offices of the Commission and the Commissioner of Public Lands for the State of New Mexico upon commencement of each phase of operations as outlined in Finding No. (5) above. Further, that the applicant shall file monthly reports of gas injected and gas withdrawn as required by Rule 405 of the Commission Rules and Regulations.

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Case No. 4896

Order No. R-4491

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

BRUCE KING, Chairman

S E A L

ALEX J. ARMIJO, Member

A. L. PORTER, Jr., Member & Secretary

dr/

contract pool to W/2 of § 34
320 ac. spacing!

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-5**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

E/2 of § 34
placed on 640 ac.
spacing - and in
new pool
(ultimately
East Grama Ridge - Morrow)

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

CASE NO. 6496
Order No. R-5995

APPLICATION OF LLANO, INC. FOR
RESCISSION OF POOL RULES, LEA
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on March 14, 1979,
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 2nd day of May, 1979, the Division
Director, having considered the testimony, the record, and
the recommendations of the Examiner, and being fully advised
in the premises,

FINDS:

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

(2) That the applicant, Llano Inc., is the owner of five
wells in the Grama Ridge-Morrow Gas Pool, Lea County, New
Mexico.

(3) That said pool was created and defined by Division
Order No. R-3006 on December 3, 1965, comprising all of
Sections 3 and 4, Township 22 South, Range 34 East, NMPM,
and made subject to the special pool rules promulgated by said
order, which include a provision for 640-acre spacing and
proration units, with well locations prescribed as being no
closer than 1650 feet to the outer boundary of the unit and
no closer than 330 feet to any quarter-quarter section line.

(4) That said pool was extended by Order No. R-3080,
effective July 1, 1966, to include all of Section 34, Township
21 South, Range 34 East, NMPM; by Order No. R-3152, effective
December 1, 1966, to include all of Section 10, Township 22
South, Range 34 East, NMPM; by Order No. R-3195, effective

March 1, 1967, to include all of Section 33, Township 21 South, Range 34 East, NMPM; and by Order No. R-5729, effective June 1, 1978, to include all of Section 2, Township 22 South, Range 34 East, NMPM.

(5) That the applicant seeks the rescission of the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool to provide that said pool would be governed by the 320-acre spacing and acreage dedication requirements and well location requirements of Rule 104 of the Division Rules and Regulations.

(6) That the evidence in this case indicates that the five Morrow gas wells owned by the applicant, namely the Grama Ridge Unit Wells Nos. 2 and 3, located in Sections 34 and 33, respectively, of Township 21 South, Range 34 East, NMPM, and Grama Ridge Unit Wells Nos. 1 and 4, and Government "A" Well No. 1, located in Sections 3, 4, and 10, respectively, of Township 22 South, Range 34 East, NMPM, are all located within an upthrust fault block bounded on the west by a northeast-southwest trending fault and on the east by a north-south trending fault, and that they are not in communication with other wells recently drilled in the area, namely the POGO State L-922 Well No. 2 located in Section 28, or the Getty 35 State Well No. 1 located in Section 35, both in Township 21 South, Range 34 East, NMPM, or the Getty 2 State Well No. 1 located in Section 2, Township 22 South, Range 34 East, NMPM.

(7) That the evidence in this case indicates that the horizontal limits of the Grama Ridge-Morrow Gas Pool, as heretofore defined, are excessive and contain lands which are not producible by wells completed within said pool.

(8) That the horizontal limits of the pool should be contracted to approximately the known productive limits of the above-described fault block, and the pool should be redefined as comprising the following-described lands:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM

Section 33: E/2
Section 34: W/2

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM

Section 3: W/2
Section 4: All
Section 10: W/2

(9) That the applicant has established that the drainage characteristics of the reservoir in the wells completed within the aforesaid fault block are not such as to support 640-acre spacing, and that 320-acre spacing is more appropriate for the Morrow wells completed therein.

(10) That the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool, as promulgated by Division Order No. R-3006, should be rescinded, and the pool, as hereinabove redefined, should be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable.

(11) That the three recently completed wells described in Finding No. (6) above are not completed in the Grama Ridge-Morrow Gas Pool as redefined, and a separate new pool should be created and defined for the POGO well located in Section 28, and a separate new pool should be created for each or both of the Getty wells located in Sections 35 and 2.

(12) That the owner of the aforesaid wells in said Sections 35 and 2 should be given a reasonable period of time in which to apply to the Division for a hearing to consider the creation of a new pool for said wells, and the promulgation of special rules therefor, if said owner wishes to pursue spacing and proration units of other than 320 acres, and 30 days after the entry of this order is a reasonable period of time for such purpose.

(13) That during such 30-day period, and during the time an application for other than 320-acre spacing has been filed, and a hearing, or an order following hearing, is pending, the following described lands should be placed on temporary 640-acre spacing for the Morrow formation, and no Morrow gas well drilling permits should be approved for said lands unless such permits are for wells to which 640-acres (being a single governmental section) is dedicated and which are located at least 1650 feet from the outer boundary of the unit and at least 330 feet from any quarter-quarter section line, or unless an exception to the provisions of this finding and the derivative order therefrom has been obtained after notice and hearing; the lands are:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 26: All
Section 34: E/2
Sections 35 and 36: All

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Case No. 6496
Order No. R-5995

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Sections 1 and 2: All
Section 3: E/2
Section 10: E/2
Sections 11 and 12: All

(14) That in the event the owner of the wells in Sections 35, Township 21 South, Range 34 East, NMPM, and 2, Township 22 South, Range 34 East, NMPM, has not filed an application for creation of a new pool for said wells and the promulgation of special rules for said pool, including a provision for other than 320-acre spacing, within the above-described 30-day period, or in the event that spacing and proration units of other than 320 acres are denied, then all the lands described in Finding No. (13) above should be governed by the provisions of Rule 104 of the Division Rules and Regulations.

(15) That an order based on the above findings is in the interest of conservation and will prevent waste and protect correlative rights and should be approved.

IT IS THEREFORE ORDERED:

(1) That the Grama Ridge-Morrow Gas Pool in Lea County, New Mexico, as heretofore classified and defined, is hereby redefined to include only the following described lands:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 33: E/2
Section 34: W/2

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: W/2
Section 4: All
Section 10: W/2

(2) That the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool, as promulgated by Division Order No. R-3006, are hereby rescinded, and said pool shall hereafter be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable.

(3) That the Morrow formation underlying all of Section 26, the E/2 of Section 34, and all of Sections 35 and 36, Township 21 South, Range 34 East, NMPM, and all of Sections 1 and 2, the E/2 of Section 3, the E/2 of Section 10, and all of

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Case No. 6496
Order No. R-5995

Sections 11 and 12, Township 22 South, Range 34 East, NMPM, are hereby placed on temporary 640-acre spacing, and no drilling permit shall be approved for any Morrow gas well proposed to be drilled on said lands unless such permit is for a well to which 640 acres (being a single governmental section) is dedicated and which is located at least 1650 feet from the outer boundary of the unit and at least 330 feet from any quarter-quarter section line, or unless an exception to the provisions of this Order No. (3) has been obtained after notice and hearing.

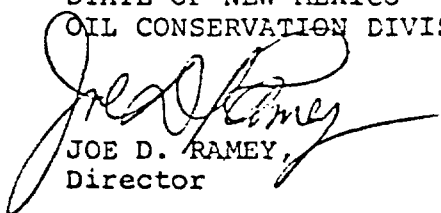
(4) That the provisions of Order No. (3) above shall be in force for a period of 30 days after the date of entry of this order, or provided Getty Oil Company has filed an application for creation of a new gas pool within the lands described in Order No. (3) above and for the promulgation of special rules for such new pool, including a provision for other than 320-acre spacing, for so long thereafter as a hearing, or an order following a hearing, is pending.

(5) That upon expiration of the acreage dedication and well location requirements provisions of Order No. (3) above, and in the absence of special pool rules to the contrary, all Morrow gas wells completed on the lands described in Order No. (3) above shall be spaced, drilled, operated, and produced in accordance with the provisions of Rule 104 of the Division Rules and Regulations.

(6) That jurisdiction of this cause is 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



JOE D. RAMEY,
Director

S E A L

dr/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

*Creation of East
Grama Ridge-Morrow Pool*

CASE NO. 6557
Order No. R-6050

APPLICATION OF GETTY OIL COMPANY
FOR POOL CREATION AND SPECIAL POOL
RULES, LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 29, 1979, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 17th day of July, 1979, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the Division, by its Order No. R-5995 entered May 2, 1979, rescinded the Special Rules and Regulations for the Grama Ridge-Morrow Gas Pool, as promulgated by Division Order No. R-3006, and provided that said pool should henceforth be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable.

(3) That said Order No. R-5995 redefined the horizontal limits of the Grama Ridge-Morrow Gas Pool to include only the E/2 of Section 33 and the W/2 of Section 34, Township 21 South, Range 34 East, NMPM, and the W/2 of Section 3, all of Section 4, and the W/2 of Section 10, Township 22 South, Range 34 East, NMPM.

(4) That said Order No. R-5995 further defined a particular area, described as all of Section 26, the E/2 of Section 34, and all of Sections 35 and 36, Township 21 South,

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # *A-6*
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Range 34 East, NMPM, and all of Sections 1 and 2, the E/2 of Section 3, the E/2 of Section 10, and all of Sections 11 and 12, Township 22 South, Range 34 East, NMPM, and prescribed that the Morrow formation underlying said area would be placed on temporary 640-acre well spacing and location requirements for a period of 30 days after the date of entry of said Order No. R-5995, or, provided that if Getty Oil Company had filed an application for creation of a new gas pool within the hereinabove-described lands and the promulgation of special rules for such new pool, including a provision for other than 320-acre spacing, then such temporary rules should remain in effect for so long thereafter as a hearing, or an order following a hearing, is pending.

(5) That Getty Oil Company did file an application with the Division on May 3, 1979, requesting such pool creation and special rules, and said application was docketed for hearing as the instant case.

(6) That as the applicant herein, Getty Oil Company seeks the creation of a new Morrow Gas Pool comprising all of Section 35, Township 21 South, Range 34 East, NMPM, and all of Section 2, Township 22 South, Range 34 East, NMPM, and the promulgation of special rules therefor, including a provision for 640-acre spacing and proration units, and well locations, no closer than 1650 feet to the outer boundary of the unit and no closer than 330 feet to any quarter-quarter section line.

(7) That the applicant is the operator of its Getty "35" State Well No. 1 located in Unit K of the aforesaid Section 35, and its Getty "2" State Well No. 1 located in Unit F of the aforesaid Section 2.

(8) That said wells are located approximately 4290 feet apart, or less than one mile, but the main producing zone in each of the two wells does not appear to be of major significance in the other well.

(9) That Getty presented evidence attempting to establish that the Morrow producing interval in both the Grama Ridge-Morrow Gas Pool and in the lands immediately East thereof, i.e., the lands under consideration in this case, is of deltaic marine nature, and therefore should extend laterally for considerable distance and exhibit good continuity of permeability throughout the reservoir, thus being conducive to 640-acre spacing; however, the preponderance of the evidence presented at the hearing establishes that said Morrow producing interval does not constitute a broad continuous producing body but instead is composed of numerous separate and isolated sand bodies.

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Case No. 6557

Order No. R-6050

(10) That from the evidence submitted at the hearing, there is no reason to believe that the drainage characteristics in the Morrow formation in the area under consideration (Section 35, Township 21 South, Range 34 East, NMPM, and Section 2, Township 22 South, Range 34 East, NMPM) are any different than the drainage characteristics of the Morrow formation in the Grama Ridge-Morrow Gas Pool immediately to the West.

(11) That the Division found, in Case No. 6496, from which Order No. R-5995 issued, that the drainage characteristics of the Morrow formation in the Grama Ridge-Morrow Gas Pool are not such as to support 640-acre spacing, and that 320-acre spacing was more appropriate for said pool.

(12) That the applicant has failed to establish that one well will effectively and efficiently drain 640 acres in the Morrow formation underlying Section 35, Township 21 South, Range 34 East, NMPM, and Section 2, Township 22 South, Range 34 East, NMPM.

(13) That after considering the evidence presented in this case and the economic loss caused by the drilling of unnecessary wells, the protection of correlative rights, including those of royalty owners, the prevention of waste, the avoidance of the augmentation of risks arising from the drilling of an excessive number of wells, and the prevention of reduced recovery which might result from the drilling of too few wells, the Commission can only conclude that the application for 640-acre spacing in the subject area should be denied, and that said lands should be developed on 320-acre spacing and proration units.

(14) That a new pool should be created and defined for applicant's wells in the subject area, and that said pool should be designated the East Grama Ridge-Morrow Gas Pool with vertical limits comprising the Morrow formation and horizontal limits comprising the S/2 of Section 35, Township 21 South, Range 34 East, NMPM, and the N/2 of Section 2, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

(15) That said East Grama Ridge-Morrow Gas Pool should be spaced, drilled, operated and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable, including 320-acre spacing and proration units and well location requirements.

(16) That the provisions of Order No. (3) on Pages 4 and 5 of Division Order No. R-5995 should be rescinded.

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Case No. 6557
Order No. R-6050

IT IS THEREFORE ORDERED:

(1) That the application of Getty Oil Company for the creation of a new gas pool in Lea County, New Mexico, for the production of gas from the Morrow formation is approved, and there is hereby created the East Grama Ridge-Morrow Gas Pool, with vertical limits comprising the Morrow formation and horizontal limits comprising the following described area:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 35: S/2

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 2: N/2

(2) That said East Grama Ridge-Morrow Gas Pool shall be spaced, drilled, operated, and produced in accordance with Rule 104 of the Division Rules and Regulations and with such other Division rules and orders as may be applicable to 320-acre spacing and proration units and well location requirements.

(3) That the application of Getty Oil Company for 640-acre spacing and well location requirements is hereby denied.

(4) That the provisions of Order No. (3) on Pages 4 and 5 of Division Order No. R-5995 are hereby rescinded.

IT IS FURTHER ORDERED:

(1) That the locations of all wells presently drilling to or completed in, or for which drilling permits have been approved for, the East Grama Ridge-Morrow Gas Pool or the Morrow formation within one mile thereof, are hereby approved.

(2) That existing wells in the East Grama Ridge-Morrow Gas Pool shall have dedicated thereto 320 acres in accordance with the foregoing, and the operator thereof shall file Forms C-102 dedicating 320 acres to such wells within 60 days after entry of this order.

Failure to file new Forms C-102 with the Division dedicating 320 acres to a well within 60 days from the date of this order shall subject the well to cancellation of allowable.

(3) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

-5-


Case No. 6557

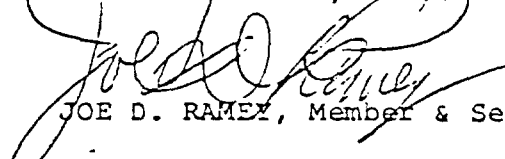
Order No. R-6050

DONE at Santa Fe, New Mexico, on the day and year herein-
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


ALEX J. ARMIJO, Member


EMERY C. ARNOLD, Member


JOE D. RAMEZ, Member & Secretary

S E A L

fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

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

CASE NO. 6558
Order No. R-6051

APPLICATION OF LLANO, INC. FOR
A NON-STANDARD GAS PRORATION UNIT,
LEA COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on May 29, 1979, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 17th day of July, 1979, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the application of Llano, Inc., for a 320-acre non-standard gas proration unit comprising the E/2 of Section 34, Township 21 South, Range 34 East, NMMP, Lea County, New Mexico, was predicated on the temporary 640-acre spacing and proration units and well location requirements promulgated by Order No. (3) on Pages 4 and 5 of Division Order No. R-5995.

(3) That the Division, by its Order No. R-6050 rescinded said Order No. (3) of Division Order No. R-5995, and the Morrow formation underlying the aforesaid E/2 of Section 34 is now subject to 320-acre well spacing and location requirements, thereby rendering this case moot.

(4) That Case No. 6558 should be dismissed.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-7
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

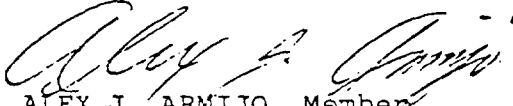
-2-
Case No. 6558
Order No. R-6051


IT IS THEREFORE ORDERED:

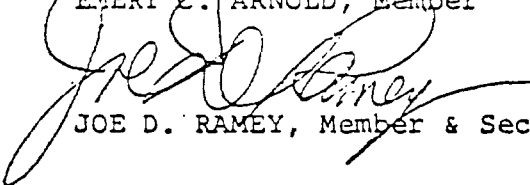
(1) That Case No. 6558 is hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year herein
above designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


ALEX J. ARMIJO, Member


EMERY C. ARNOLD, Member


JOE D. RAMEY, Member & Secretary

S E A L

fd/

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION COMMISSION

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

CASE NO. 8088
Order No. R-7582

APPLICATION OF LIANO, INC. FOR
SPECIAL WELL TESTING REQUIREMENTS
OR EXPANSION OF ITS GAS STORAGE
PROJECT, LEA COUNTY, NEW MEXICO.

SECTION 5 WELL

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:00 a.m. on May 15, 1984, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 29th day of June, 1984, the Commission, a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

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

(2) That the applicant, Liano, Inc., is the operator of the Grana Ridge Morrow Unit which was approved by the Commission on January 29, 1973, by Order No. R-4473 and has been subsequently expanded to include the following described state lands:

LEA COUNTY, NEW MEXICO, NMPM

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Sections 33 and 34: All

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 3: All

(3) That the applicant operates an underground gas storage project in the Morrow Formation, Grana Ridge Morrow Gas Pool, under the Grana Ridge Morrow Unit Area described in Paragraph (2) and under Sections 4 and 10, Township 22 South,

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-8
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Range 34 East, NMPM, under which gas storage rights have been acquired by applicant through agreement with the United States, acting by and through the Secretary of the Interior (Agreement for Subsurface Storage of Gas, Morrow Formation, Grana Ridge Area, Lea County, New Mexico, Agreement No. 14-08-0001-14277, as amended).

(4) That Llano injects gas into the Morrow formation in its GRM Unit Well No. 1 (formerly State GRS Well No. 1) located in Unit B, Section 3, Township 22 South, Range 34 East, NMPM, and in the GRM Unit Well No. 2 (formerly State GRS Well No. 1) located in Unit L of Section 34, Township 21 South, Range 34 East, NMPM, Grana Ridge-Morrow Gas Pool, Lea County, New Mexico, pursuant to Commission Order R-4491 entered on March 16, 1973.

(5) That L & B Oil Company proposes to drill its Federal Well No. 1 at a location 650 feet from the south line and 1900 feet from the east line of Section 5, Township 22 South, Range 34 East, NMPM, which directly offsets the Llano Storage Project.

(6) That the boundaries of the Grana Ridge Storage Reservoir cannot be precisely determined.

(7) That L & B Oil Company proposes to test and possibly complete its Federal Well No. 1 in the same Morrow interval into which Llano injects natural gas for storage and in so doing could damage Llano's storage project and produce gas which is the property of Llano, Inc.

(8) That applicant seeks an order requiring L & B Oil Company to test the Morrow sands encountered below the top of the Morrow Clastics in its Federal Well No. 1 by using a Repeat Formation Tester (RFT) to establish the pressure in each Morrow stringer and thereby determine if the well is in communication with Llano's storage project.

(9) That Llano should be required to bear the cost of conducting this test and should further be required to indemnify L & B Oil Company for any damage to their well which results from the tests.

(10) That testing at the L & B Oil Company Federal Well No. 1 will not cause waste nor violate correlative rights and should be approved.

(11) That there was insufficient evidence presented to warrant the expansion of the gas storage project to include the N/2 of Section 5, Township 22 South, Range 34 East.

IT IS THEREFORE ORDERED:

(1) That the applicant, Llano, Inc., shall be permitted, at its option, to run an RFT log on the L & B Oil Company Federal Well No. 1 to be drilled at a location 660 feet from the south line and 1980 feet from the East line of Section 5, Township 22 South, Range 14 East, NMPM, Lea County, New Mexico.

(2) That L & B Oil Company shall provide Llano, Inc. with the following information on the said Federal Well No. 1 from the top of the Morrow Clastics to total depth:

- (a) Drilling data, including time, weight, bit changes, etc.
- (b) Copies of drill stem tests.
- (c) Mud log information.
- (d) Samples or drilling cuttings.
- (e) Copy of the CNL-FDC porosity log or equivalent porosity log.

(3) Within twenty-four hours after receipt of the data required in Paragraph (2) of this Order, Llano at its sole discretion, shall determine if the Morrow formation in the L & B Oil Company well is structurally equivalent to Llano's storage system and shall notify L & B Oil Company and the District Office of the Oil Conservation Division in Hobbs, New Mexico, whether or not it will run an RFT log on the well.

- (4) If Llano, Inc. decides to run an RFT log on the well:
- (a) L & B Oil Company will temporarily turn over control of the well to Llano, Inc. for the sole purpose of running an RFT log from the top of the Morrow Clastics to the well's total depth;
- (b) Llano will make all arrangements with the service company to run the RFT log;
- (c) Llano will be liable for any damage to the well during the time Llano has control of the well and will reimburse L & B Oil Company for any time costs for the period while Llano is determining whether or not to run the RFT log, rig time costs involved in running the RFT log, and any other costs incurred by L & B Oil Company as a result of running the RFT log.

(4) Llano will promptly relinquish control of the well to L & B Oil Company upon completion of running the RFT log, and

(5) Llano will furnish a copy of the RFT log on the well to L & B Oil Company.

PROVIDED FURTHER, that L & B Oil Company will not run casing in the well until Llano has run the RFT log on the well or failed to notify L & B Oil Company and the Oil Conservation Division's District Office of its intention to run the RFT log in accordance with the provisions of Paragraph (3) of this Order.

(6) That if it is established by the data obtained from the RFT log that the Morrow stringers in the said L & B well have pressures similar to those of Llano's gas storage project, L & B Oil Company shall not produce gas from those stringers and shall demonstrate this fact to the satisfaction of Llano, Inc. and the District Office of the Oil Conservation Division located in Hobbs, New Mexico.

(7) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

JIM BACA, Member

ED KELLEY, Member

JOE D. HANEY, Chairman and
Secretary

S E A L

**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:**

**APPLICATION OF RAPTOR NATURAL PIPELINE, LLC CASE NO. 12588
f/k/a LG & E ENERGY CORPORATION, FOR SPECIAL
RULES FOR THE GRAMA RIDGE MORROW GAS STORAGE
UNIT, LEA COUNTY, NEW MEXICO.**

**APPLICATION OF LG & E NATURAL PIPELINE LLC CASE NO. 12441
FOR SPECIAL RULES FOR THE GRAMA RIDGE
MORROW GAS STORAGE UNIT, LEA COUNTY, NEW
MEXICO.**

ORDER NO. R-11611

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 9:00 a.m. on May 21, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of July, 2001, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of these cases and their subject matter.

(2) At the time of the hearing, Cases No. 12588 and 12441 were consolidated for the purpose of testimony. It is further noted that the original applicant in Case No. 12441, LG&E Natural Pipeline, LLC, through a change of name became Raptor Natural Pipeline LLC.

(3) BTA Oil Producers, Yates Petroleum Corporation, C. W. Trainer, Inc., Nearburg Exploration Company L.L.C. and Concho Resources, Inc. appeared at the hearing and were represented by counsel.

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-2
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

(4) The applicant in Case No. 12588, Raptor Natural Pipeline LLC, is the Unit Operator of the Grama Ridge Morrow Gas Storage Unit, utilized for the purposes of the injection, storage, and withdrawal of gas in the Unitized Formation, consisting of those Morrow formation sands encountered between log depths of 12,722 feet and 13,208 feet in the Shell Oil Company State GRA Well No. 1 (API No. 30-025-21336), located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico.

(5) The Grama Ridge Morrow unitized area, as originally approved by the Division on January 29, 1973, pursuant to Order No. R-4473, and subsequently amended, encompasses the above-referenced interval of the Morrow Formation underlying the following lands:

Township 21 South, Range 34 East, NMPM

Section 33: All

Section 34: All

Township 22 South, Range 34 East, NMPM

Section 3: All

Section 4: All

Section 10: All.

(6) Unit operations originally commenced in 1964 as conventional production operations authorized by the Division under Order No. R-2792. In 1973, the Division, by Order No. R-4491, authorized the conversion of the Unit from primary recovery to gas storage, pursuant to a three-phase plan consisting of pilot pressure testing to determine the limits of the Morrow reservoir, followed by the installation of permanent compression equipment and fill-up operations, and subsequently, by installation of additional compression to facilitate fill-up to 2,500 psig surface pressure.

(7) In 1979, in Case No. 6557, the New Mexico Oil Conservation Commission ("Commission") issued Order No. R-6050, creating the East Grama Ridge-Morrow Gas Pool in the area. In Order No. R-6050, the Commission found that the Morrow producing interval in the area does not constitute a broad, continuous producing body, but instead is composed of numerous and separate isolated sand bodies. Subsequently, in Case No. 8088, the Commission found in Order No. R-7582 that the boundaries of the Grama Ridge Storage Reservoir could not be precisely determined. The issuance of Order No. R-7582 by the Commission in Case No. 8088 was precipitated by the proposed location of the L&B Oil Company Federal Well No. 1 to be drilled at a location 660 feet from the South line and

1980 feet from the East line (Unit O) of Section 5, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico directly offsetting the Grama Ridge Morrow Gas Storage Unit. At the insistence of the Unit operator, then Llano, Inc., the Commission ordered L&B Oil Company to permit Llano to run an RFT log in the Federal Well No. 1, in order to establish the pressure in each Morrow stringer and thereby determine if the well was in communication with the gas storage project. The Commission further ordered L&B Oil Company to provide Llano with certain information on the Federal Well No. 1, including drilling time, weight, bit changes, *etc.*; copies of drill stem tests; mud log information; samples of drill cuttings; and copies of the CNL-FDC porosity log or equivalent porosity log. L&B was further ordered to delay running casing into the well until Llano had the opportunity to run the RFT log. Order No. R-7582 finally prohibited L&B Oil Company from producing gas from those Morrow stringers that the RFT log data showed as having pressure similar to Llano's gas storage project

(8) The applicant presented evidence establishing that Nearburg Exploration Company LLC drilled and completed its Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948) within the horizontal limits of the Unit at a location approximately 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34, Township 21 South, Range 34 East, NMPM, Lea County, New Mexico. This well was also drilled to a total depth and completed within the vertical limits of the structural equivalent of the Unitized Formation.

(9) Raptor presented testimony and evidence establishing that, based on currently available data, it appears that the Grama Ridge East "34" State Well No. 1 has not adversely affected Unit Operations, although the possibility of actual communication with the Unitized Formation cannot be precluded with absolute certainty.

(10) Raptor presented additional geologic and engineering evidence establishing that the exact boundaries of the storage reservoir still cannot be precisely determined. The evidence further establishes that the precise location of faults in the area and the apparent boundary or boundaries between the storage reservoir and the East Grama Ridge-Morrow Gas Pool is uncertain.

(11) Raptor presented additional geologic evidence of the depositional mechanics of the Morrow formation in the area, establishing that there is a reasonable possibility of communication between the storage reservoir and Morrow sands in the East Grama Ridge-Morrow Gas Pool. These depositional mechanisms include distributary prograding channel sands with truncation of lobe sands; bifurcating distributary channels; crevasse splays with communication up-formation; stacked channel sands with truncation; offsetting channels of relatively close proximity with varying relative reservoir pressures which may lead to the

failure of inter-reservoir sealing mechanisms; and, faulted distributaries with cross-fault communication.

(12) The applicant presented additional evidence establishing that the potential exists for additional drilling and development within the horizontal limits of the Unit Area and that additional drilling or recompletions may result in wells being completed in Morrow Formation reservoirs that are in communication with that portion of the formation dedicated to the Grama Ridge Morrow Gas Storage Unit. As a consequence, there exists a reasonable potential that the drilling, completion, and operation of new wells or recompletions of existing wells in the area, would result in interference with Unit operations and the impairment of Applicant's correlative rights.

(13) Raptor requests that the Division adopt Special Project Rules and Operating Procedures for the Grama Ridge Morrow Gas Storage Unit Area, including certain notification, casing, cementing, completion and recompletion requirements for newly drilled and existing wells within the Unit Area.

(14) Raptor presented engineering testimony and evidence in support of its proposed casing and cementing requirements that would permit recompletions and new drills through the Unitized Formation, and completions immediately above and below the Unitized Formation, while maintaining the integrity of the Unit and unit operations.

(15) Raptor presented evidence establishing that the implementation of such rules is reasonable, and does not unduly burden operators of wells within the project area, and industry and regulatory precedent exists for such rules.

(16) The evidence presented further established that the implementation of such Special Project Rules and Operating Procedures would be in the interest of, and would promote, public safety.

(17) In August 2000, Raptor, then known as LG&E Natural Pipeline LLC, convened a meeting in Midland, Texas with operators in the vicinity of the Grama Ridge Morrow Gas Storage Unit to discuss the establishment of proposed Special Project Rules and Operating Procedures in the Grama Ridge Morrow Gas Storage Unit Area as well as in a buffer zone consisting of each 320- acre gas spacing and proration unit immediately adjacent to the Grama Ridge Morrow Gas Storage Unit. As a result of that meeting and the comments received from the other operators, Raptor/LG&E modified its proposal by eliminating certain notification and testing procedures as well as the buffer zone. Subsequent meetings with other operators, specifically Nearburg Exploration, resulted in further refinements and modifications to the proposed Special Project Rules and Operating Procedures.

(18) The Special Project Rules and Operating Procedures presently proposed by Raptor provide for:

- (a) Advance notification of drilling or recompletion operations;
- (b) The sharing of certain information during drilling operations;
- (c) Availability of well logs;
- (d) Certain casing and cementing requirements for wells penetrating the Morrow Formation and completed above the top of the Unitized Formation;
- (e) Certain casing and cementing requirements for wells penetrating the Morrow Formation and completed below the base of the Unitized Formation and/or below the base of the Morrow Formation; and
- (f) A prohibition on completions within the Unitized Formation underlying the Unit Project Area by other than the Unit Operator.

The proposed Special Project Rules and Operating Procedures would not apply to any well that does not penetrate the Morrow Formation within the Unit Project Area.

(19) The evidence presented by Raptor established that the Special Project Rules and Operating Procedures are necessary to protect the correlative rights of the Unit Operator to the gas in its storage facility as well as to maintain the integrity of Unit operations. The evidence further established that the Special Project Rules and Operating Procedures would serve to prevent waste and are otherwise in the interests of conservation. The Special Project Rules and Operating Procedures would also promote public safety.

(20) In addition to its general authority to prevent waste and protect correlative rights set forth at N.M. Stat. Ann. 1978 Section 70-2-11, the Division is authorized by Section § 70-2-12.B (2), (7) and (13) to prevent the escape of gas from strata, to require wells to be drilled so as to prevent injury to neighboring leases or properties, and to regulate the subsurface storage of natural gas.

(21) Special operating procedures for all recompletions and newly drilled wells within the Grama Ridge Morrow Gas Storage Unit project area should be implemented in accordance with the Special Project Rules and Operating Procedures, as described above.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Raptor Natural Pipeline LLC, special project rules and operating procedures for the Grama Ridge Morrow Gas Storage Unit Area in Lea County, New Mexico are hereby promulgated as follows:

**SPECIAL PROJECT RULES AND OPERATING PROCEDURES
FOR THE
GRAMA RIDGE MORROW GAS STORAGE UNIT**

RULE 1. Each newly drilled or recompleted well penetrating the Morrow formation in the area of the Grama Ridge Morrow Gas Storage Unit Project Area shall be drilled, operated, and produced in accordance with the Special Project Rules and Operating Procedures hereinafter set forth.

RULE 2. Provisions of these Special Project Rules and Operating Procedures shall apply to the Grama Ridge Morrow Gas Storage Unit Project Area (the "Unit Project Area" or "Unit Area"), defined as and consisting of the following described acreage in Lea County, New Mexico:

**GRAMA RIDGE MORROW
GAS STORAGE UNIT
PROJECT AREA**

Township 21 South, Range 34 East, NMPM

Section 33: All

Section 34: All

Township 22 South, Range 34 East, NMPM

Section 3: All

Section 4: All

Section 10: All.

RULE 3. For purposes of these Special Project Rules

and Operating Procedures, the "Unitized Formation," as to State lands, is defined by that April 25, 1973, Unit Agreement For The Operation Of The Grama Ridge Morrow Unit Area, Lea County, New Mexico, as amended, and consists of "[t]hat subsurface portion of the unit area commonly known as the Morrow sands which is the same zone as [sic] the top and bottom of which were encountered at log depths of 12,722 feet and 13,208 feet respectively, in the Shell Oil Company State GRA Well No. 1 (API No. 30-025-21336), as shown on the Schlumberger Sonic Log B Gamma Ray Log of said well dated July 5, 1965, which well is located 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 3, Township 22 South, Range 34 East, NMPM, Lea County, New Mexico." As to State and fee lands, the Unit Area includes Sections 33 and 34, Township 21 South, Range 34 East, NMPM, and the NE/4 of Section 4 and all of Section 3, Township 22 South Range 34 East, NMPM. As to Federal lands, the "Unitized Formation" consists of the Morrow Formation underlying the "gas storage reservoir area" (also the Unit Area) in Section 4 (excluding the NE/4 of Section 4) and Section 10, Township 22 South, Range 34 East, NMPM, as defined in that November 24, 1975 Agreement for the Subsurface Storage of Gas, No. 14-08-0001-14277, as amended.

RULE 4. For purposes of these Special Project Rules and Operating Procedures, the "Morrow Formation" is defined as the full extent of the vertical limits of the Morrow formation. The "Unit Operator" is defined as the operator of the Grama Ridge Morrow Gas Storage Unit Area.

RULE 5. Operators other than the Unit Operator proposing to drill a new well or recomplete an existing well penetrating or that may penetrate the Morrow Formation within the Unit Project Area of the Grama Ridge Morrow Gas Storage Unit, as defined above, shall:

- (a) provide the Unit Operator with advance written notification of intent to drill at the sooner of the date of filing of APD, C-101 and

C-102 forms, or thirty (30) days prior to commencing drilling operations;

- (b) on commencement of drilling operations, provide the Unit Operator with the following information within twenty-four (24) hours of its availability:
 - (i) daily drilling reports, including detailed time breakdown and other parameters normally associated with IADC daily drilling reports; and
 - (ii) the anticipated date and time when the top of the Morrow formation will be encountered by the drill bit; and
- (c) provide the Unit Operator with copies of all logs run on the well within twenty-four (24) hours of their availability and before casing is set.

RULE 6. For each well penetrating the Morrow formation within the boundaries of the Unit Project Area and completed above the top of Unitized Formation, the operator shall:

- (a) in the event of a cased hole into or through the Unitized Formation, isolate the Unitized Formation by squeezing cement immediately above and below (if penetrated) the Unitized Formation and immediately below the operator's deepest completion interval, run a cement bond log, and then fill the casing with cement to a level higher than the top of the Unitized Formation; and
- (b) in the case of an open hole into or through the Unitized Formation with casing set above the Unitized Formation:

- (i) if the hole total depth is within the Unitized Formation, fill the hole with cement to a level 20 feet higher than the top of the Unitized Formation; and
- (ii) if the hole total depth is below the bottom of the Unitized Formation, set a bridge plug at a depth 20 feet below the bottom of the Unitized Formation and fill the hole with cement from the bridge plug to a level 20 feet higher than the top of the Unitized Formation.

RULE 7. For each well penetrating the Morrow Formation and completed below the base of the Unitized Formation within the boundaries of the Unit Project Area, the operator shall:

- (a) squeeze cement immediately above the perforation interval, squeeze cement immediately below the Unitized Formation and squeeze cement immediately above the Unitized Formation; and
- (b) provide the Unit Operator with a cement bond log to document bond on all squeeze jobs.

RULE 8. For each exploratory well penetrating the Morrow Formation that is to be plugged and abandoned without casing, the operator shall fill the hole with cement from a bridge plug set at 20 feet below the base of the Unitized Formation (if applicable) to a level 20 feet above the top of the Unitized Formation.

RULE 9. The Unit Operator, on the request of an operator providing information and materials pursuant to Rule 5 (a) through (c) above or any other applicable provision of these Special Project Rules and Operating Procedures, shall

treat all or any part of such information and materials as confidential and shall prevent their release to any third party, except that this confidentiality provision shall not cover such information and materials that: (i) are or become generally available to the public other than as a result of a disclosure by the Unit Operator or an affiliate in violation of this provision; (ii) the Unit Operator or an affiliate already possessed on a non-confidential basis; or (iii) the Unit Operator or an affiliate is obligated to disclose by law, subpoena, or the order of a court or other governmental entity having jurisdiction.

RULE 10. Completions within the Unitized Formation underlying the Unit Project Area by anyone other than the Unit Operator are prohibited.

RULE 11. These Special Project Rules and Operating Procedures shall not apply to any well that does not penetrate the Morrow Formation within the Grama Ridge Morrow Gas Storage Unit Project Area.

(2) The Special Project Rules and Operating Procedures for the Grama Ridge Morrow Gas Storage Unit Area shall become effective May 1, 2001.

(3) Jurisdiction of this case is 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

A handwritten signature in cursive script, reading "Lori Wrotenberg".

LORI WROTENBERY
Director

S E A L

-45057

ASSIGNMENT AND BILL OF SALE

THE STATE OF NEW MEXICO
COUNTY OF LEA

\$
\$
\$

KNOW ALL MEN BY THESE PRESENTS:

THAT for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, the undersigned REDROCK OPERATING LTD. CO., a New Mexico Limited Liability Company whose address is P. O. Box 140505, Dallas, Texas 75214 ("Assignor"), does hereby SELL, ASSIGN, TRANSFER, SET OVER and CONVEY unto ROCA RESOURCE COMPANY, INC., whose address is P. O. Box 1981, Midland, Texas 79702 ("Assignee"), subject to the terms and provisions set forth herein, all of the Assignor's right, title and interest in, to and under, or derived from, the oil and gas leases, oil, gas and mineral leases and other interests therein (the "Leases") specifically described or referred to in Exhibit "A" attached hereto and made a part hereof for all purposes; together with identical interests in and to all property and rights incident thereto, including without limitation, all materials, equipment, personal property and fixtures located thereon (excepting and reserving the compressor and appurtenances thereto) or used in connection therewith and all of Assignor's rights in, to and under all agreements, leases, permits, rights-of-way, easements, licenses, options and orders in any way relating thereto as of 7 A.M. Local Time April 1, 1999, (the "Effective Time"); all of the foregoing properties, rights and interests being hereinafter sometimes called the Subject Interests.

Assignor hereby excepts and reserves unto itself as an overriding royalty interest two percent (2%) of all oil, gas, and associated hydrocarbons produced and saved from the E/2 of Section 10 under the terms and provisions of the Leases 1 and 2 more fully described on Exhibit "A" and an overriding

D:\PURCHASE\REDROCK TO ROCA ASS.DOC

BOOK 960 PAGE 340

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-10
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

royalty interest of ten percent (10%) percent of all oil, gas, and associated hydrocarbons produced and saved from the S/2 of Section 34 under the terms and provisions of Lease 4 more fully described on Exhibit "A". This overriding royalty interest shall be in addition to all royalties, overriding royalties, and burdens payable out of production heretofore created. Said overriding royalty shall be delivered to Assignor free and clear of all liens and all costs of development and operation, (including charges for gathering, transportation, compression and treatment), but will be subject to a proportionate part of any and all applicable taxes. Assignor shall have the right to take or separately dispose of its proportionate share of all production which is attributable to the overriding royalty interest herein reserved.

The overriding royalty interest reserved herein to Assignor shall be reduced proportionately if Assignor's interest in the Oil and Gas Leases cover less than the full undivided interest in the oil and gas and associated hydrocarbons in the assigned premises or if Assignor does not own all leasehold rights in said leases.

TO HAVE AND TO HOLD the Subject Interests unto Assignee, its successors and assigns forever.

1. Assignor further gives and grants unto Assignee full power and right of substitution and subrogation in and to all covenants and warranties by others heretofore given or made in respect of the Subject Interests. THIS ASSIGNMENT IS FURTHER MADE AND ACCEPTED UPON THE UNDERSTANDING AND AGREEMENT THAT ASSIGNOR MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF ANY DATA, INFORMATION, OR MATERIALS HERETOFORE OR HEREAFTER FURNISHED ASSIGNEE IN CONNECTION WITH THE SUBJECT

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INTERESTS, OR AS TO THE QUALITY OR QUANTITY OF HYDROCARBON RESERVES (IF ANY) ATTRIBUTABLE TO THE SUBJECT INTERESTS, OR THE ABILITY OF THE INTERESTS TO PRODUCE HYDROCARBONS. ANY AND ALL SUCH DATA, INFORMATION, OR OTHER MATERIALS FURNISHED BY ASSIGNOR IS PROVIDED ASSIGNEE AS A CONVENIENCE AND ANY RELIANCE ON OR USE OF THE SAME SHALL BE AT ASSIGNEE'S SOLE RISK. ASSIGNEE EXPRESSLY WAIVES THE PROVISIONS OF CHAPTER XVII, SUBCHAPTER E, SECTIONS 17.41 THROUGH 17.63, INCLUSIVE (OTHER THAN SECTION 17.555, WHICH IS NOT WAIVED), VERNON'S TEXAS CODE ANNOTATED BUSINESS AND COMMERCE CODE (THE "DECEPTIVE TRADE PRACTICES ACT").

2. THIS ASSIGNMENT IS MADE BY ASSIGNOR AND ACCEPTED BY ASSIGNEE WITHOUT REPRESENTATIONS, COVENANTS OR WARRANTIES AS TO TITLE OR QUANTUM OF INTEREST CONVEYED, EITHER EXPRESSED OR IMPLIED, ASSIGNEE HAVING MADE ITS OWN INDEPENDENT EXAMINATION AND FOUND SAME TO BE SATISFACTORY. IT IS UNDERSTOOD AND AGREED THAT ASSIGNEE HAS INSPECTED THE PROPERTY AND PREMISES AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION AND THAT ASSIGNEE SHALL ACCEPT ALL OF THE SAME IN THEIR "AS IS, WHERE IS" CONDITION.
3. Assignor will execute and deliver all such other and additional instruments, notices, releases, acquittances and other documents, and will do all such other acts and things, as may be necessary more fully to assure to Assignee or its successors or assigns all of the respective rights and interests herein and hereby granted or intended to be granted.
4. By its acceptance of this Assignment, Assignee shall comply with and does hereby assume and agree to perform Assignee's proportionate part of all express and implied covenants,

\\gmskane\work\work to be done.doc

obligations and reservations contained in the Leases, and the interests assigned herein are subject to and shall bear their proportionate share of all existing burdens on the Leases.

5. This Assignment of the Subject Interests is made subject to all reservations, exceptions, limitations, contracts and other burdens or instruments which are of record or of which Assignee has actual or constructive notice, including any matter included or referenced in the materials made available by Assignor to Assignee.

6. As used in this paragraph 6, and the subparagraphs hereunder "claims" shall include claims, demands, causes of action, liabilities, damages, penalties and judgments of any kind or character and all costs and fees in connection therewith.

(a) Assignee shall, (i) at the Effective Time assume, and be responsible for and comply with all duties and obligations of Assignor, express or implied, with respect to the Subject Interests, including, without limitation, those arising under or by virtue of any lease, contract, agreement, document, permit, applicable statute or rule, regulation or order of any governmental authority (specifically including, without limitation, any governmental request or requirement to plug, re-plug and/or abandon any well of whatsoever type, status or classification, or take any clean-up or other action with respect to the property or premises), and (ii) defend, indemnify and hold Assignor harmless from any and all claims in connection therewith, except any such claims arising directly or indirectly from, or incident to, Assignor's

ownership or operation of the Subject Interests prior to the Effective Time.

- (b) Assignor shall indemnify and hold harmless Assignee from any and all claims, costs, expenses, liabilities or causes of action to or by third parties arising out of or relating to the ownership or operation of the Subject Interests prior to the Effective Time. Assignee shall indemnify and hold harmless Assignor from any and all claims, costs, expenses, liabilities or causes of action to or by third parties arising out of or relating to the ownership or operation of the Subject Interests after the Effective Time. Each indemnified party hereunder agrees that upon its discovery of facts giving rise to a claim for indemnity under the provisions of this Assignment, including receipt by it of notice of any demand, assertion, claim, action or proceeding, judicial or otherwise, by any third party (such third party actions being collectively referred to herein as the "Claim"), with respect to any matter as to which it is entitled to indemnity under the provisions of this Assignment, it will give prompt notice thereof in writing to the indemnifying party together with a statement of such information respecting any of the foregoing as it shall then have. Such notice shall include a formal demand for indemnification under this Assignment. The indemnified party shall afford the indemnifying party a reasonable opportunity to pay, settle or contest the Claim at its expense.
- (c) Assignor shall (i) be responsible for any and all claims arising out of the production or sale of hydrocarbons from the Subject Interests—or the proper accounting or payment to

parties for their interests therein—insofar as such claims relate to periods of time prior to the Effective Time, and (ii) defend, indemnify and hold Assignee harmless from any and all such claims. Assignee shall be responsible for all of said types of claims insofar as they relate to periods of time from and after the Effective Time and shall defend, indemnify and hold Assignor harmless therefrom.

7. All ad valorem taxes, real property and similiar obligations ("Property Taxes") for the year 1999 shall be prorated and settlement shall be made at Closing or as soon thereafter as possible.
8. All proceeds (including proceeds held in suspense or escrow) from the sale of production actually sold and delivered by Assignor prior to the Effective Time and attributable to the Subject Interests shall belong to Assignor and all proceeds from the sale of production actually sold and delivered after the Effective Time attributable to the Subject Interests shall belong to Assignee. In addition, all oil, condensate or liquid hydrocarbons (hereinafter in this paragraph called "oil") in storage above the pipeline connection shall be gauged and all gas meter charts shall be replaced at the Effective Time (with Assignee having the right to have a representative present). Assignee shall pay Assignor for such oil at the highest posted field price prevailing for oil of like grade and gravity for the particular field as of the Effective Time.
9. All costs, expenses and obligations relating to the Subject Interests which accrue prior to the Effective Time shall be paid

and discharged by Assignor; and all costs, expenses and obligations relating to the Subject Interests which accrue after the Effective Time shall be paid and discharged by Assignee.

10. All taxes (other than ad valorem and income taxes) which are imposed on or with respect to the production of oil, gas or other hydrocarbons or minerals or the receipt of proceeds therefrom (including but not limited to severance, production, excise and windfall profit taxes) shall be apportioned between the parties based upon the respective shares of production taken by the parties. Payment or withholding of all such taxes which have accrued prior to the Effective Time and filing of all statements, returns and documents pertinent thereto shall be the responsibility of Assignor. Payment or withholding of all such taxes which have accrued from and after the Effective Time and filing of all statements, returns and documents incident thereto shall be the responsibility of Assignee.
11. The provisions hereof shall be covenants running with the lands and shall be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.
12. This Assignment and Bill of Sale may be executed in multiple counterparts, all of which shall be construed together as an original instrument to the same extent and with like effect as though all the parties hereto had executed each counterpart. The parties specifically agree that the execution and acknowledgment pages from the several counterparts may be aggregated into one counterpart for recordation and other purposes.

EXECUTED this 27th day of May, 1999, but effective as of the
1st day of April, 1999.

"ASSIGNOR"

REDROCK OPERATING LTD. CO.

By: Mark L. Stanger
Title: Partner
Date: 5/27/99

"ASSIGNEE"

ROCA RESOURCE COMPANY, INC.

By: [Signature]
Title: Vice-President
Date: 5/27/99

STATE OF TEXAS §
COUNTY OF Dallas §

This instrument was acknowledged before me on 27th of May,
1999, by Mark L. Stanger, of REDROCK OPERATING LTD. CO., a limited
liability company, on behalf of said company.



New Mexico
Tami L. Treisch
Notary Public, State of Texas
Printed/Typed Name of Notary

BOOK 360 PAGE 347

STATE OF TEXAS

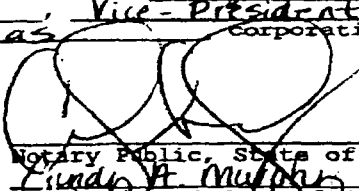
§

COUNTY OF MIDLAND

§

This instrument was acknowledged before me on July 27th,
1999, by Dale L. Hillman, Vice-President
of ROCA RESOURCE COMPANY, INC., a Texas corporation, on behalf
of said corporation.

My Commission Expires:

5-17-2003
Notary Public, State of TexasCandy H. Murphy
Printed/Typed Name of Notary

BOOK 960 PAGE 348

EXHIBIT 'A'

Attached to and made a part of that certain Assignment and Bill of Sale dated _____, 1999 and between Redrock Operating Ltd. Co. and Roca Resources Company, Inc.

All of Seller's rights, title and interest in, to and under or derived from the oil and gas leases, oil, gas and mineral leases, mineral interests, unit agreements, operating agreements and all other contracts and agreements and all other interests derived therefrom located in whole or in part within the surface boundaries of the following described tracts of land.

Lease #1

Lessor:
Serial Number:
Original Lessee:
Lease Date:
Recording Information:
Lands Covered:

United States of America
NM-040943
Charles H. Quinn
April 1, 1958
Unrecorded
NE/4 of Section 10, T-22-S, R-34-E,
Lea County, New Mexico

Lease #2

Lessor:
Serial Number:
Original Lessee:
Lease Date:
Recording Information:
Lands Covered:

United States of America
NM-033312
Mary W. Goodpasture
April 1, 1958
Unrecorded
INSOFAR as lease covers the SE/4 of Section 10,
T-22-S, R-34-E, Lea County, New Mexico

Lease #3

Lessor:
Serial Number:
Original Lessee:
Lease Date:
Recording Information:
Lands Covered:

United States of America
NM-033312
Mary W. Goodpasture
April 1, 1958
Unrecorded
INSOFAR as lease covers the W/2 of Section 10,
T-22-S, R-34-E, Lea County, New Mexico

Lease #4

Lessor:
Serial Number:
Original Lessee:
Lease Date:
Recording Information:
Lands Covered:

State of New Mexico
E-9653
Gulf Oil Corporation
December 20, 1955
Unrecorded
S/2 of Section 34, T-21-S, R-34-E, Lea County, New Mexico, LIMITED from surface of the earth to the top of the Silurian formation, SAVE AND EXCEPT the interval from 12,722' to 13,208' subsurface in the SW/4

Lease #5

Lessor:
Serial Number:
Original Lessee:
Lease Date:
Recording Information:
Lands Covered:

United States of America
NM-69400
Hudson Petroleum (USA), Inc.
9/21/87
Unrecorded
Well access road with a total length of 1.572 miles (503.03 rods) in the NE/4 SE/4 and S/2 SE/4 of Section 9 and N/2 NE/4, SW/4 NE/4, SE/4 NW/4 and N/2 SW/4 of Section 10, T-22-S, R-34-E, Lea County, New Mexico

-45057

STATE OF NEW MEXICO
COUNTY OF LEA
FILED

JUN 11 1999

at 11:36 o'clock A M
and recorded in Book _____
Page _____
Pat Chappelle, Lea County Clerk
By Pat Deputy



BOOK 960 PAGE 350

State of New Mexico
Energy, Minerals & Natural Resources Department

OIL CONSERVATION DIVISION
2040 South Pacheco
Santa Fe, NM 87505

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-11**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

Operator Name and Address Nearburg Producing Company 3500 N.A. St., Bldg 2, Suite 120 Midland, TX 79705		OGRID Number 015742
Property Code 25382		API Number 30-025-34948
Property Name Grama Ridge East 34 State		Well No. 1

Surface Location

UL or lot no.	Section	Township	Range	Lot	Feet from the	North/South line	Feet from the	East/West Line	County
H	34	21S	34E		1548	North	990	East	Lea

Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot	Feet from the	North/South line	Feet from the	East/West Line	County
Proposed Pool 1 Grama Ridge Morrow, East					Proposed Pool 2				

Work Type Code N	Well Type Code G	Cable/Rotary R	Lease Type Code S	Ground Level Elevation 3689
Multiple No	Proposed Depth 13700	Formation Morrow	Contractor Patterson	Spud Date 03-05-00

Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2"	13-3/8"	48#	1300'	800 sxs	Circ to surface
12-1/4"	9-5/8"	24# & 32#	5700'	2000 sxs	Circ to surface
8-3/4"	5-1/2"	17# & 20#	13700'	1500 sxs	

Describe the proposed program. If this application is to DEEPEN or PLUG BACK give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Propose to drill the well to sufficient depth to evaluate the Morrow formation. After reaching TD, logs will be run and casing set if the evaluation is positive. Perforate, test and stimulate as necessary to establish production.

Acreage dedication is 320 acres; N/2 of Section 34.

Permit Expires 1 Year From Approval
Date Unless Drilling Underway

I hereby certify that the information given above is true and complete to the best of my knowledge and belief.		OIL CONSERVATION DIVISION	
Signature: <i>Kim Stewart</i>		Approved By: <i>[Signature]</i>	
Printed name: Kim Stewart		Title: <i>[Signature]</i>	
Regulatory Analyst		Approval Date: FEB 28 2000	Expiration Date:
File: 02-23-00	Phone: 915/686-8235	Conditions of Approval: Attached: <input type="checkbox"/>	

DISTRICT I
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT II
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT III
P.O. Box 1000, Santa Fe, NM 87501-1000

DISTRICT IV
P.O. Box 1000, Santa Fe, NM 87501-1000

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 19, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION

P.O. Box 2088
Santa Fe, New Mexico 87504-2088

☐ AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number 30-025-34948	Pool Code 77690	Pool Name Gramma Ridge Morrow, East
Property Code 25382	Property Name GRAMA RIDGE EAST 34 ST.	Well Number 1
OCED No. 15742	Operator Name NEARBURG PRODUCING COMPANY	Elevation 3689

Surface Location

UL or Lot No.	Section	Township	Range	Lot Ids	Feet from the	North/South Line	Feet from the	East/West line	County
H	34	21 S	34 E		1548	NORTH	990	EAST	LEA

Bottom Hole Location If Different From Surface

UL or Lot No.	Section	Township	Range	Lot Ids	Feet from the	North/South Line	Feet from the	East/West line	County
Dedicated Acres 320	Joint or Infill N	Consolidation Code	Order No.						

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED
OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION

	<p>OPERATOR CERTIFICATION</p> <p>I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.</p> <p><i>Kim Stewart</i> Signature Kim Stewart Printed Name Regulatory Analyst Title February 23, 2000 Date</p>
	<p>SURVEYOR CERTIFICATION</p> <p>I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision and that the same is true and correct to the best of my belief.</p> <p>FEBRUARY 21, 2000 Date LMP Signature PROFESSIONAL SURVEYOR NEW MEXICO <i>Donald L. Fosson</i> 100-11-0258 1/22/2000</p>
	<p>Certification No. 100-11-0258 Fosson Professional Surveyor 12641 12185</p>

N0202

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. 12,622
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR TWO NONSTANDARD)
GAS SPACING AND PRORATION UNITS, LEA)
COUNTY, NEW MEXICO)
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 28th, 2001
Santa Fe, New Mexico

OIL CONSERVATION DIV.
01 JUL 12 AM 7:57

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 28th, 2001, 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.

* * *

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-12**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

1 A. Yes.

2 Q. -- does that come across your desk for any type
3 of approval?

4 A. Yes, it does.

5 Q. So you would have an opportunity to inquire and
6 check on various things?

7 A. That's correct.

8 Q. Let's look at the APD. When this APD is filled
9 out, Nearburg as the operator/applicant fills in everything
10 except the Division approval and perhaps the API number,
11 right?

12 A. That's correct.

13 Q. When I look at the proposed pool, it indicates
14 Grama Ridge-Morrow East. Do you see that?

15 A. Yes.

16 Q. That would have been action taken by Nearburg to
17 fill in the form, right?

18 A. Either that or we would have submitted the form
19 to them and they would have told us what to put in that
20 pool, what the well -- We generally look at the well
21 location and we find out what the closest pool is, and we
22 found out in that case that that location in the northeast
23 quarter, that would be included in the Grama Ridge North --
24 or the Grama Ridge East Pool.

25 Q. Do you have in place a practice where you check

1 pool rules?

2 A. Only if we think there's a reason to do so, via
3 something that alerts us to that effect. And I honestly
4 don't believe, Tom, that any operator in the State of New
5 Mexico, when they get ready to have well, if they have a
6 dedication of 320 acres, goes and researches every single
7 pool, you know, around the area?

8 Q. Wouldn't you do that, Mr. Shelton?

9 A. No, I don't think anybody does that. I think
10 they rely on title opinions and they rely on the State's
11 notification after the C-102 is approved for that type of
12 information.

13 Q. And that is Nearburg's practice, then,
14 apparently, at least in this case?

15 A. That's Nearburg's practice and the practice of
16 other people I've been associated with, yes.

17 Q. So you're expecting the Division District office
18 and the Santa Fe office to check any kind of mistake that
19 you might make?

20 A. Well, in the title opinion also.

21 Q. Well, the title opinion, does that include a
22 search of the OCD public records?

23 A. It includes a search of the -- in this case, the
24 SLO records.

25 Q. Well, they won't search, then -- under the drill-

1 site title-opinion process, they don't search the OCD well
2 files, do they?

3 A. No, they do not.

4 Q. They don't search *Byram's* or the OCD rule book
5 for pool rules, do they?

6 A. No, they do not.

7 Q. They don't look to see where the boundaries are
8 of any pool?

9 A. That's correct.

10 Q. They don't check to see if there's a difference
11 in special rules between the special rules and the
12 statewide rules, right?

13 A. That's correct.

14 Q. And you don't do it internally?

15 A. We do it if we feel like there's a necessity to,
16 if we're alerted to that.

17 Q. Okay. How would you know which way to turn the
18 320 acres in Section 34?

19 A. Well, we would -- I don't know that we would
20 have. We likely would have come before the Division asking
21 for what we have right now at that time, based on the
22 mapping that we have now, which I think you will see and
23 which will present our evidence, that the 160-acre spacing
24 unit is the applicable acreage to be dedicated to the well.

25 Q. Well, let's look at Exhibit 1, the plat.

1 A. Okay.

2 Q. You and Mr. Gawloski are looking at this
3 prospect, and he's doing some geology for you, right?

4 A. Correct.

5 Q. And he's going to base his geology on a Morrow
6 attempt, right?

7 A. Correct.

8 Q. He's going to have available to him in Section 34
9 the existence of Morrow wells, true?

10 A. That's correct.

11 Q. Wouldn't it be interesting for you to know,
12 before you file the permit, which way those spacing units
13 are oriented for existing wells that he's looking at?

14 A. Well, we knew the well in the southeast quarter
15 was non- -- it had not produced. And just like we
16 testified to, there was no com agreement. The com
17 agreement had expired for that well.

18 Q. Did you check the OCD files to determine whether
19 or not their records still showed the east half of Section
20 34 dedicated to this temporarily abandoned well?

21 A. No, we did not at that time. But we know the com
22 agreement under the -- has terminated with regard to that
23 well, and there is no dedication to the east half.

24 Q. Did you look at the pool rules for the East Grama
25 Ridge-Morrow Gas Pool?

1 A. Well, we knew what the pool rules were. They
2 were 320 acres.

3 Q. All right. Did you know the west half was in a
4 different pool?

5 A. No, we did not.

6 Q. Did you make any effort to determine that?

7 A. Only through the indications that I've made
8 previous to you.

9 Q. In your prior practices, aren't you aware that
10 the Division precludes you from having two separate pools
11 dedicated in the same spacing unit for the same well?

12 A. Well, we haven't -- You know, that is the
13 practice of the OCD, I understand that.

14 Q. But you didn't know it then?

15 A. Well, we -- you know, I didn't know how that
16 would affect us, no.

17 Q. Who was the landman responsible for this at this
18 time?

19 A. Duke Roush.

20 Q. Is he still employed?

21 A. Yes, he is.

22 Q. Was there a petroleum engineer involved in the
23 process, Mr. Shelton?

24 A. Well, there would have been somebody that ran
25 economics on the well and reviewed the prospect along with

Dist
Stat
Fee
DIS
P.O

BEFORE THE

OIL CONSERVATION COMMISSION

Case No. 12622 & 12908

Exhibit # **A-13**

Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

State of New Mexico
Oils and Natural Resources Department

Form C-105
Revised 1-1-89

SERVATION DIVISION

2040 Pacheco St.
Santa Fe, NM 87505

WELL API NO.
30-025-34948

5. Indicate Type of Lease
STATE ☒ FEE ☐

6. State Oil & Gas Lease No.

F III

3 Brazos Rd, Aztec, NM 87410

WELL COMPLETION OR RECOMPLETION REPORT AND LOG

1a. Type of Well: OIL WELL <input type="checkbox"/> GAS WELL <input checked="" type="checkbox"/> DRY <input type="checkbox"/> OTHER <input type="checkbox"/>		7. Lease Name or Unit Agreement Name Grama Ridge East 34 State	
b. Type of Completion: NEW WELL <input checked="" type="checkbox"/> WORK OVER <input type="checkbox"/> DEEPEN <input type="checkbox"/> PLUG BACK <input type="checkbox"/> DIFF RESVR <input type="checkbox"/> OTHER <input type="checkbox"/>		8. Well No. 1	
2. Name of Operator Nearburg Producing Company		9. Pool name or Wildcat Grama Ridge Morrow; East	
3. Address of Operator 3300 N A St., Bldg 2, Suite 120, Midland, TX 79705			
4. Well Location Unit Letter <u>H</u> : <u>1548</u> Feet From The <u>North</u> Line and <u>990</u> Feet From The <u>East</u> Line Section <u>34</u> Township <u>21S</u> Range <u>34E</u> NMPM Lea County			
10. Date Spudded 03/07/00	11. Date T.D. Reached 04/28/00	12. Date Compl. (Ready to Prod.) 06/09/00	13. Elevations (DF & RKB, RT, GR, etc.) 3689' GL 3706' KB
14. Elev. Casinghead			
15. Total Depth 13,500'	16. Plug Back T.D. 13,412'	17. If Multiple Compl. How Many Zones?	18. Intervals Drilled By Rotary Tools <input checked="" type="checkbox"/> Cable Tools <input type="checkbox"/>
19. Producing Interval(s), of this completion - Top, Bottom, Name 13,134' - 13,156' (Morrow)			20. Was Directional Survey Made No
21. Type Electric and Other Logs Run DLL/CNL/LDT/GR			22. Was Well Cored No

CASING RECORD (Report all strings set in well)

LOG SIZE	WEIGHT LB/FT.	DEPTH SET	HOLE SIZE	CEMENTING RECORD	AMOUNT PULLED
13-3/8"	68#	1296'	17-1/2"	872 sx	NA
9-5/8"	36 & 40#	5763'	12-1/4"	1903 sx	NA
7"	23, 26 & 29#	11250'	8-3/4"	180 sx	NA

LINER RECORD				TUBING RECORD		
SIZE	TOP	BOTTOM	SACKS CEMENT	SCREEN	SIZE	DEPTH SET
4-1/2"	11,018'	13,500'	350 sx		2-3/8	13,055'

26. Perforation record (interval, size, and number) 13,134' - 13,156' 5 JSPF (110 holes)	27. ACID, SHOT, FRACTURE, CEMENT, SQUEEZE, ETC.	
	DEPTH INTERVAL	AMOUNT AND KIND MATERIAL USED
	13,134' - 13,156'	

28. PRODUCTION							
Date First Production 06/09/00		Production Method (Flowing, gas lift, pumping - Size and type pump) Flowing				Well Status (Prod. or Shut-in) Producing	
Date of Test 06/16/00	Hours Tested 24	Choke Size 9/64"	Prod'n For Test Period	Oil - Bbl. 20	Gas - MCF 1239	Water - Bbl. 0	Gas - Oil Ratio 61950:1
Flow Tubing Press. 5000	Casing Pressure -	Calculated 24-Hour Rate	Oil - Bbl. 20	Gas - MCF 1239	Water - Bbl. 0	Oil Gravity - API - (Corr.) 52.5	

29. Disposition of Gas (Sold, used for fuel, vented, etc.) Sold	Test Witnessed By Matt Lee
--	-------------------------------

30. List Attachments 34. Deviations and Logs

31. I certify that the information shown on both sides of this form is true and complete to the best of my knowledge and belief

Signature Kim Stewart Printed Name Kim Stewart Title Regulatory Analyst Date 06/27/00

N0019

HOLLAND & HART^{LLP}
and
CAMPBELL & CARR
ATTORNEYS AT LAW

DENVER • ASPEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY • SANTA FE
WASHINGTON, D.C.

P.O. BOX 2208
SANTA FE, NEW MEXICO 87504-2208
110 NORTH GUADALUPE, SUITE 1
SANTA FE, NEW MEXICO 87501

TELEPHONE (505) 988-4421
FACSIMILE (505) 983-6043

January 8, 2001

HAND-DELIVERED

Lori Wrotenbery, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
2040 South Pacheco Street
Santa Fe, New Mexico 87505

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-14**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Re: *Application of Nearburg Exploration Company, L. L. C. for Administrative Approval of Two Non-Standard 160 Acre Gas Well Spacing Units in the E/2 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico*

Dear Ms. Wrotenbery:

Nearburg Exploration Company, L. L. C. hereby seeks administrative approval pursuant to the provisions of Division Rule 104.D(2)(b) to form:

Two non-standard 160 acre gas spacing and proration units in the East Grama Ridge-Morrow Gas Pool comprised of the NE/4 and the SE/4 of Section 34, Township 21 South, Range 34 East, N.M.P.M., Lea County, New Mexico.

The following attachments are provided with this application:

Attachment A is a plat showing the Morrow ownership in said Section 34 and demonstrating that the proposed NE/4 and SE/4 gas spacing and proration units are comprised of contiguous quarter sections that lie wholly within a single governmental half section.

Attachment B is a waiver letter from EOG Resources, Inc., the only party affected by this application.

Attachment C is a 1979 amended Well Location and Acreage Dedication Plat showing that the W/2 of said Section 34 is devoted to the Grama Ridge Morrow Unit Well No. 2 and therefore not affected by this application.

Since state leases are involved, attachment D is a certified letter to the New Mexico State Land Office advising them of this application.

Two Morrow gas pools are located in said Section 34: The W/2 of Section 34 is part of the Grama Ridge-Morrow Gas Pool and the E/2 of Section 34 is part of the East Grama Ridge-Morrow Gas Pool. The existence of two pools in said Section 34 is the result of the Division's finding that the Grama Ridge-Morrow Gas Pool is located "within an upthrust fault block bounded to the west by a northeast - southwest trending fault and on the east by a north-south trending fault." See Division Order No. R-5995 (entered May 2, 1979) (said order is also referenced at the bottom of Attachment C).

In January of 1999, the New Mexico State Land Office cancelled Lease No. K-3592 for the N/2 of said Section 34 for non-payment of rental. The State subsequently leased the N/2 of Section 34 to Nearburg under Lease No. V-5683. On February 28, 2000, the Division approved a drilling permit which dedicated the N/2 of Section 34 to Nearburg's East Grama Ridge Morrow State 34 No. 1 Well located in the NE/4 of Section 34. See Attachment E.

After Nearburg drilled and completed this well, the Division's Hobbs office informed Nearburg that a change in the acreage dedicated to Nearburg's well is necessary because (a) there are separate Morrow pools in the W/2 and E/2 of Section 34, (b) the W/2 of Section 34 is already devoted to the Grama Ridge Morrow Unit Well No. 2, and (c) the E/2 of Section 34 is presently devoted to the Llano 34 State Com #1 Well, located in the SE/4 of Section 34 (Unit I). The Llano 34 State Com #1 Well was drilled in 1979 under a communitization agreement with the state and is presently shut-in. EOG Resources, Inc. is the successor operator to this well.

As a result of these events, the respective acreage positions of Nearburg and EOG Resources, and their right to produce gas from the E/2 of Section 34, is in question. The operators in the E/2 of Section 34 desire to resolve these issues and protect their correlative rights. The creation of two non-standard gas spacing and proration units in Section 34 will clarify their respective acreage positions and right to produce gas from the East Grama Ridge-Morrow Gas Pool underlying the E/2 of Section 34 from their respective wells.

The granting of this application under this unique set of circumstances will protect the correlative rights of all interest owners in Section 34, will not cause waste, will avoid litigation and administrative hearings over the rights of the interest owners to develop the reserves under the E/2 of Section 34, accommodate the Divisions' desire to re-dedicate acreage to Nearburg's well in the NE/4 of Section 34, and provide EOG the opportunity to produce their well in the SE/4 of said Section 34 in the Morrow formation.

Lori Wrotenbery
January 8, 2001
Page 3

Since all of the interest owners in the E/2 of Section 34 support this application, there are no affected parties to whom notice of this application needs to be provided.

A proposed form of order is also enclosed.

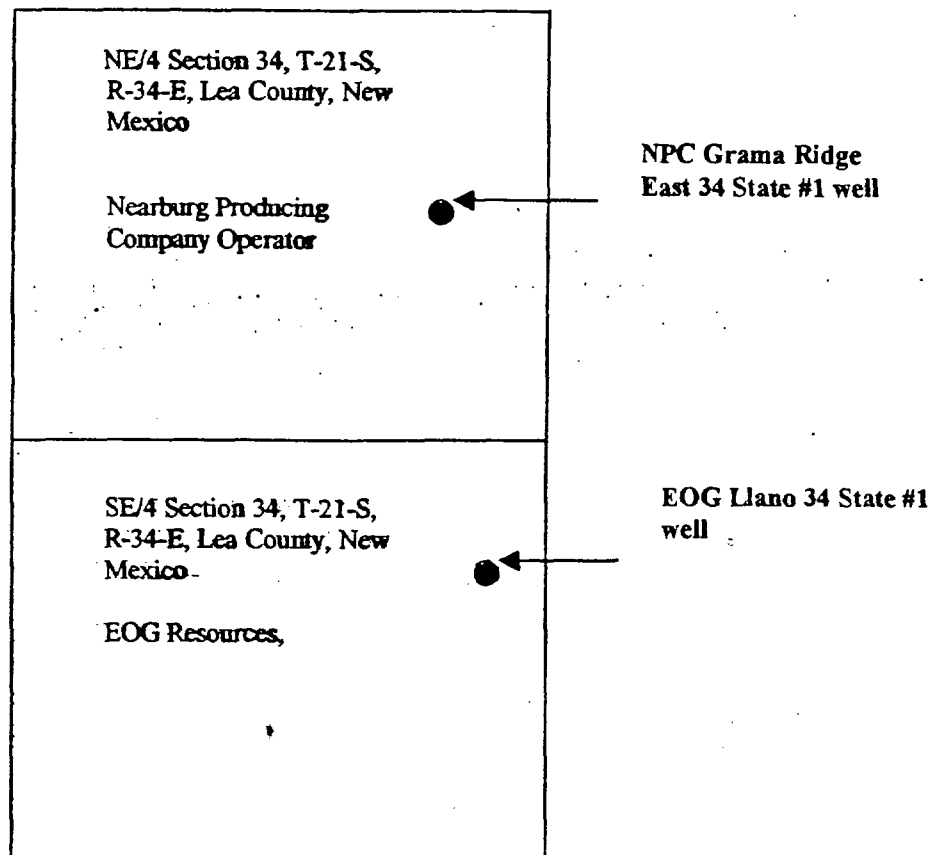
Very truly yours,

A handwritten signature in black ink, appearing to read "Michael H. Feldewert", written in a cursive style.

Michael H. Feldewert

MHF/ras
Enclosure

**E/2 of Section 34, T-21-S, R-34-E
Lea County, New Mexico**





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JUL 25 2000

CAMPBELL, CARR, et. al.

RAY POWELL, M.S., D.V.M.
COMMISSIONER

State of New Mexico
Commissioner of Public Lands

310 OLD SANTA FE TRAIL P.O. BOX 1148

SANTA FE, NEW MEXICO 87504-1148

Legal Division
(505) 827-5713
Fax (505) 827-4262

July 21, 2000

VIA FAX AND
U.S. MAIL
(Fax - 983-6043)

Mr. William Carr
Attorney at Law
Campbell, Carr, Berge & Sheridan, P.A.
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

RE: State Oil and Gas Lease Nos. VO-5682 & VO-5683; Sections 33 & 34, Township 21
South, Range 34 East; LG&E Gas Storage Unit

Dear Mr. Carr:

I understand that you represent Nearburg Exploration Company and Yates Petroleum Corporation, BTA, Inc., who have interests in State Oil and Gas Leases Nos. VO-5682 and VO-5683, respectively. The purpose of this letter is to clarify the position of the New Mexico State Land Office ("NMSLO") regarding the gas storage unit that LG&E currently operates in Lea County. The storage unit underlies the west half of state section 34-21S-34E and the east half of section 33-21S-34E, which sections are also partially encumbered by your clients' leases.

Enclosed with this letter is page 3 of the Grama Ridge-Morrow Unit Agreement ("Unit Agreement"), which describes and delineates the "unitized formation" in which LG&E stores its gas. Although your clients are not parties to the Unit Agreement, and their leases are not modified by it, LG&E nonetheless had (and continues to have) valid existing storage rights at the time your clients obtained their leases. Therefore, VO-5682 and VO-5683 are subject to LG&E's existing right to store gas in the unitized formation and to use the surface of Sections 33 and 34 to the extent necessary to inject and withdraw its gas.

Despite the existence of LG&E's storage rights, your clients have the right under their oil and gas leases to explore for, and produce, native oil and gas on and below the leased premises. However, since they should not exercise their exploration and production rights in a manner that unreasonably interferes with LG&E's existing storage rights, NMSLO advises your clients to cooperate with LG&E and to coordinate their activities with LG&E to the extent possible.

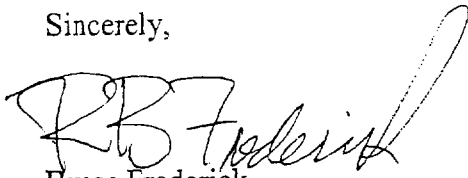
BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-15
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Mr. William Carr
Attorney at Law
Campbell, Carr, Berge & Sheridan, P.A.
July 21, 2000
Page 2

Please note that the Commissioner regards both LG&E and your clients as valued business partners. With that in mind, NMSLO would be glad to help facilitate an agreement between LG&E and your clients that reasonably accommodates the interests of all parties.

If you have any questions regarding this letter, or would like to propose a resolution to the current situation, please do not hesitate to contact me. My direct line is (505) 827-5756.

Sincerely,



Bruce Frederick
Associate Counsel

pc: J. Scott Hall, Attorney for LG&E
Dennis Hazlett, Deputy Commissioner, NMSLO
Larry Kehoe, Assistant Commissioner, NMSLO

2. UNITIZED SUBSTANCES: All oil, gas, natural gasoline and associated fluid hydrocarbons in the unitized formation as hereinafter defined are unitized under the terms of this agreement and herein are called unitized substances.

3. UNITIZED FORMATION: That subsurface portion of the unit area commonly known as the Morrow sands which is the same zone as the top and bottom of which were encountered at log depths of 12,722 feet and 13,208 feet in the Shell Oil Company State GRA Well No. 1 as shown on the Schlumberger Sonic Log - Gamma Ray Log of said well dated July 5, 1965, which said well is located 1980 feet from the North line and 660 feet from the west line of Section 3, Township 22 South, Range 34 East, is unitized under this agreement and is hereinafter referred to as the "unitized formation".

4. UNIT OPERATOR: Llano, Inc. with offices at Hobbs, New Mexico (P.O. Drawer 1320) is hereby designated as unit operator and by signature hereto commits to this agreement all interest in unitized substances vested in it as set forth on Exhibit "B" and agrees and consents to accept the duties and obligations of unit operator for the operation of the Grama Ridge Morrow Unit Area. Whenever reference is made herein to the unit operator, such reference means the unit operator acting in that capacity and not as an owner of interests in unitized substances, and the term "working interest owner" when used herein shall include or refer to unit operator as the owner of a working interest when such interest is owned by it.

5. RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit operator shall have the right to resign at any time, but such resignation shall not become effective until a successor unit operator has been selected and in the manner provided for in Section 6 of this agreement.

COMMISSIONER'S OFFICE
Phone (505) 827-5760
Fax (505) 827-5766

ADMINISTRATION
Phone (505) 827-5700
Fax (505) 827-5853

LEGAL COUNSEL
Phone (505) 827-5713
Fax (505) 827-4262

PUBLIC AFFAIRS
Phone (505) 827-1245
Fax (505) 827-5766



COMMERCIAL RESOURCES
Phone (505) 827-5724
Fax (505) 827-6157

MINERAL RESOURCES
Phone (505) 827-5744
Fax (505) 827-4739

ROYALTY MANAGEMENT
Phone (505) 827-5772
Fax (505) 827-4739

SURFACE RESOURCES
Phone (505) 827-5793
Fax (505) 827-5711

**New Mexico State Land Office
Commissioner of Public Lands
Ray Powell, M.S., D.V.M.**

January 10, 2001

Holland and Hart LLP
Campbell and Carr, Attorneys at Law
Post Office Box 2208
Santa Fe, New Mexico 87501

Attn: Michael H. Feldewert

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-16**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Dear Mr. Feldewert:

We received your January 8, 2001 letter requesting approval from the Commissioner of Public Lands for two separate proration units for the NE4 and SE4 of said Section 34 for the Grama Ridge Morrow, East Gas pool. We are familiar with the distinction of this pool from that of the Grama Ridge Morrow Gas pool underlying the W2 of said Section 34. However, we would like to clarify a couple of points that were misstated in your letter.

Great Western Drilling Company is the lessee of record for the N2 of Section 34, not Nearburg Producing Company as you stated. However, we do concur that Nearburg Producing Company has obtained operating rights for the Morrow in this lease. In addition, we do not recognize EOG Resources as the operator of record for the Llano 34 State Com Well No. 1. Pecos River Operating, Inc. is the operator of record for this well. The Llano 34 State Com Well No. 1 has an E2 dedication in said Section 34 to the Grama Ridge Morrow, East Gas pool. We understand the error regarding a N2 dedication to the Nearburg well that was drilled in the NE4 of Section 34, and concur that an E2 dedication was necessary due to the differing Morrow Gas pools segregated by the North to South trending fault through the middle of Section 34.

Our concern has been and remains, that an E2 dedicated Grama Ridge Morrow, East Gas well already exists in Section 34, although inactive. Upon the presence of the Nearburg well in the NE4 of Section 34, and with an E2 dedication, we assumed that they would obtain operating rights to the Llano 34 State Com Well No. 1 and possibly produce both wells within the E2. Or, that Pecos River Operating, Inc. would be required to plug the Llano 34 State Com Well No.1. Regardless, two separate operators within the same pool and proration unit can not be allowed.

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N0207

JAN 15 2001

Holland & Hart

5/17/01

"WE WORK FOR EDUCATION"

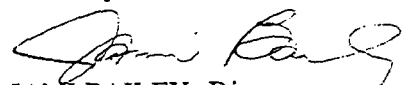
CAMPBELL, CARR, et. al.

We understand the desire of your client to operate and produce separately within Section 34, thus the necessity of the quarter section proration units. However, we concur with the current rules, regulations, and spacing requirements affecting the Grama Ridge Morrow, East Gas pool established by the New Mexico Oil Conservation Division. We believe that 320 acre spacing is correct and justified for this pool.

Therefore, please be informed that a recommendation for a waiver of objection from the Commissioner of Public Lands will not be made.

If you care to discuss this further, please contact Jeff Albers at (505) 827-5759.

Sincerely,



JAMI BAILEY, Director
Oil, Gas & Minerals Division
(505) 827-5744

JB/ja

Xc: New Mexico Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505
Attn: Mr. Michael Stogner

N0208



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Legal Division
(505) 827-5713
Fax (505) 827-4262

January 23, 2001

Michael H. Feldewert, Esq.
Holland and Hart LLP
P.O. Box 2208
Santa Fe, New Mexico 87501

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-17**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Re: Non-Standard Proration Unit Proposal
NE4 & SE4 (Respectively)
Section 34-21S-34E
Lea County, New Mexico

Dear Mr. Feldewert:

The New Mexico State Land Office hereby withdraws its objection to the creation of two non-standard 160-acre gas spacing and proration units in the Grama Ridge Morrow, East Gas pool. The creation of this non-standard unit is in the best interest of the state's trust beneficiaries, but only because of the unique geology and other special circumstances. However, the other administrative issues raised in Mr. Jeff Albers' letter, dated January 10, 2001, still need to be addressed.

If you have any questions, please do not hesitate to call me.

Sincerely,

Bruce Frederick
Associate Counsel, NMSLO

pc: Mike Stogner, OCD

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JAN 24 2001

CAMPBELL, CARR, et. al.

N0209



State of New Mexico
Commissioner of Public Lands

RAY POWELL, M.S., D.V.M.
COMMISSIONER

310 OLD SANTA FE TRAIL
P.O. BOX 1148
SANTA FE, NEW MEXICO 87504-1148

Office of the General Counsel
(505) 827-5713
Fax: (505) 827-4262

December 11, 2001

William F. Carr, Esq.
Holland & Hart LLP
Campbell & Carr, Attorneys at Law
110 North Guadalupe
Santa Fe, New Mexico 87504-2208

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-18**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Re: Grama Ridge East 34 State Well No. 1
Unit H, Section 34, Township 21 South, Range 34 East
Lea County, New Mexico

Dear Mr. Carr:

This is to advise you that the New Mexico State Land Office ("NMSLO") continues to support the efforts of Nearburg Exploration Company, L.L.C. ("Nearburg") to persuade the Oil Conservation Division ("OCD") to rescind its July 26th shut-in order regarding the well referenced above, as provided in my letter of November 16, 2001.

However, please be advised that if OCD agrees to rescind the shut-in order before it resolves the spacing unit issue, Nearburg should pay State royalties on 1/6th of the total production, as provided in State Lease VO-5683 covering the N/2 of Section 34. Because a different State lease covers the S/2 of Section 34, and it provides for only a 1/8th royalty, NMSLO will hold in suspense 1/48th of Nearburg's royalty (the difference between 1/6th and 1/2(1/6 + 1/8)). NMSLO will refund the 1/48th to Nearburg in the event OCD ultimately decides that the appropriate spacing unit should be the entire E/2 of Section 34 (rather than dividing the E/2 into two 160-acre units).

Notwithstanding anything in this or any prior letter to the contrary, NMSLO takes no position on what the appropriate spacing unit should be or on whether any working interest proceeds should be escrowed pending OCD's resolution of the matter. Please disregard the suggestion in my November 16th letter that 50% of the proceeds should be escrowed. NMSLO believes that all issues (i.e., the size of the spacing unit, whether to rescind the shut-in order, and whether to require the escrow of working interest funds) are properly resolved by OCD, and NMSLO will support any decision of OCD that is based on substantial evidence presented to OCD at hearing.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "BF Frederick". The signature is stylized with large, bold letters and a long, sweeping flourish at the end.

Bruce Frederick

Associate Counsel

pc: Larry Kehoe
Jeff Albers
Kurt McFall

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

February 14, 2001

Via Facsimile

Oil Conservation Division
1220 South St. Francis
Santa Fe, New Mexico 87504

Attn: Mr. Michael E. Stogner

Re: **NOTICE OF OBJECTION:**

*Nearburg Exploration Company, L.L.C.
Administrative Application to NMOCD
for Approval of Two Non-Standard 160-acre
Gas Proration and Spacing Units
NE/4 and SE/4, Section 34, T21S, R34E, NMPM,
East Grama Ridge-Morrow Gas Pool, Lea County, New Mexico*

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-19**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

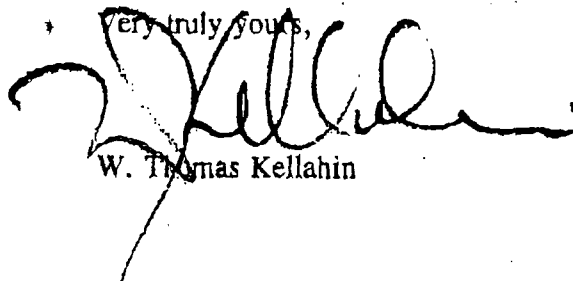
Dear Mr. Stogner:

By letter dated January 8, 2001, Nearburg Exploration Company, L.L.C. filed the referenced administrative application with the Division and by letter dated January 29, 2001 sent notification to Redrock Operating Ltd. Co. of the referenced request.

On behalf of Redrock Operating Ltd Co., an affected overriding royalty interest owner in the SE/4 of this section, we hereby object to the referenced application as described in its administrative application to the Division.

We request that this matter be set for hearing and that I on behalf of Redrock Operating Inc. be provided notification of the hearing in accordance with Division notice rules.

Very truly yours,



W. Thomas Kellahin

ccx: William F. Carr, Esq.

Attorney for Nearburg Exploration, L.L.C.

Commissioner of Public Lands State of New Mexico

Attn: Jeff Alpers

Redrock Operating Ltd. Co.

Attn: Mark L. Stanger

Tim Cashon



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

RY E. JOHNSON

Governor

Jennifer A. Salisbury
Cabinet Secretary

February 15, 2001

Lori Wrotenbery

Director

Oil Conservation Division

Nearburg Exploration Company, L.L.C.
c/o Holland & Hart LLP and Campbell & Carr
P. O. Box 2208
Santa Fe, New Mexico 87504-2208

Attention: Michael H. Feldewert

BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-20**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

Re: Administrative application initially filed with the New Mexico Oil Conservation Division in Santa Fe on January 8, 2001 for an exception to the spacing provisions of Division Rule 104C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, to create two non-standard 160-acre gas spacing and proration units within the East Grama Ridge-morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to a well to be operated by Nearburg Producing Company; and (ii) the SE/4 of Section 34 to be dedicated to a well to be operated by EOG Resources, Inc.

Dear Mr. Feldewert:

On Wednesday, February 14, 2001 I received the following: (i) a letter of opposition from Redrock Operating Ltd. Co. of Coppell, Texas dated February 12, 2001 to your application (see attached); (ii) your voice mail message left at 11:40 a.m.; and (iii) a faxed letter from Mr. W. Thomas Kellahin who represents Redrock Operating Ltd. Co. (also attached). This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for March 22, 2001. I prepared the following advertisement in this matter:

"Application of Nearburg Exploration Company, L.L.C. for spacing and proration units, Lea County, New Mexico. Applicant requests an exception to the provisions of Division Rule 104.C (2) to create two non-standard units within the East Grama Ridge-Morrow Gas Pool comprising Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico. Nearburg Producing Company's existing Grama Ridge East "34" (34948), located at a standard gas well location 1548 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34, to be operated by EOG Resources, Inc. operated Llano "34" State Well No. 1 (API No. 34948). These two wells are located approximately 17 miles west of Eunice, New Mexico.

RECEIVED

FEB 16 2001

CAMPBELL, CARR, et. al.

cc: New Mexico Oil Conservation Division - Hobbs
Jeff Albers, Engineer - New Mexico State Land Office - Santa Fe
W. Thomas Kellahin, Legal Counsel for Redrock Operating Ltd. Co.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

**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. 12622
ORDER NO. R-11768**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on June 28 and July 26, 2001, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 22nd day of May, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The applicant, Nearburg Exploration Company, L.L.C. ("Nearburg"), seeks exception to the spacing provisions of Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, in order to create two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc.-operated Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34.

(3) The E/2 of Section 34 is included in the East Grama Ridge-Morrow Gas Pool and the W/2 of the section is in the Grama Ridge-Morrow Gas Pool. Both pools are subject to Division Rule 104.C (2), as revised, which provides for 320-acre spacing units comprising any two contiguous quarter sections of a single governmental section and

**BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # **A-21**
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002**

provides for infill development (a total of two wells per unit); provided however, there can only be one well in each quarter section.

(4) All of Section 34 is within the Grama Ridge Morrow Gas Storage Unit Area, which was unitized for the purpose of gas injection, storage, and withdrawal within a portion of the Morrow formation, as provided for by Division Order No. R-11611, issued in consolidated cases No. 12441 and 12588 on July 3, 2001.

(5) Redrock Operating Ltd., Co. of Coppell, Texas ("Redrock"), an overriding royalty interest owner in the SE/4 of Section 34, appeared at the hearing and presented evidence in opposition to the application. Raptor Natural Pipeline, LLC, operator of the Grama Ridge Morrow Gas Storage Unit Area and a unit well in the W/2 of Section 34, and Wayne Newkumet, James E. Brown, Brent D. Hilliard, Wendel Creech, and David F. Alderks, all of Midland, Texas and all overriding royalty interest owners in the N/2 of Section 34, appeared through legal counsel but did not oppose Nearburg's request.

(6) On October 10, 1979, the above-described EOG Resources, Inc.-operated Llano "34" State Well No. 1 in the SE/4 of Section 34 (originally drilled by Minerals, Inc.) was completed in the East Grama Ridge-Morrow Gas Pool. A standard 320-acre stand-up gas spacing unit comprising the E/2 of Section 34 was dedicated to the well under a communitization agreement approved October 19, 1979 and made effective May 1, 1979 by the New Mexico State Land Office ("NMSLO"). This well last produced in 1991 and the communitization agreement was terminated by the NMSLO effective March 31, 1991. This 320-acre unit ceased to exist when the well stopped producing and the communitization agreement terminated.

(7) Evidence indicates that Redrock acquired the working interest in the SE/4 of Section 34 by assignment on March 1, 1998. On May 27, 1999 Redrock assigned its interest to Roco Resources Company, Inc. of Midland, Texas, reserving however a 10% overriding royalty interest.

(8) The evidence presented by Nearburg and the records of the Division establish that:

- (a) State of New Mexico Oil and Gas Lease No. K-03592 covering the N/2 of Section 34 was cancelled by the NMSLO in January, 1999;
- (b) a new oil and gas lease covering the N/2 of Section 34 was offered by the NMSLO at the December, 1999 lease sale; the NMSLO request for bids contained no stipulations or reservations concerning the existence of the Grama Ridge

Morrow Gas Storage Unit;

- (c) Great Western Drilling Company of Midland, Texas was the successful bidder and received a new oil and gas lease (Lease No. V-05683) covering the N/2 of Section 34 that became effective January 1, 2000;
- (d) Nearburg later acquired 75% of the interest of Great Western Drilling Company in the N/2 of section 34. On February 28, 2000 the Division's district office in Hobbs approved Nearburg Producing Company's "*Application for Permit to Drill ("APD")*" (Division Form C-101 with Form C-102 attached) for its above-described Grama Ridge East "34" State Well No. 1 at a standard gas well location on a standard 320-acre lay-down gas spacing unit comprising the N/2 of Section 34;
- (e) the Grama Ridge East "34" State Well No. 1 was drilled in March, 2000 to a depth of 13,500 feet and completed as a Morrow gas well on June 9, 2000; on June 19, 2000 the Division's Hobbs district office approved Nearburg Producing Company's "*Request for Allowable and Authorization to Transport*" (Division Form C-104), and on June 22, 2000 approved a testing allowable for the well;
- (f) in July, 2000 Nearburg Producing Company was notified by the Division's Hobbs district office that the previously authorized lay-down N/2 spacing unit included acreage from two separate Morrow gas pools [see Finding Paragraph No. (3) above];
- (g) Nearburg filed an administrative application pursuant to Division Rule 104.D, as revised, with the Division's Santa Fe office on January 8, 2001 for the two subject 160-acre non-standard gas spacing units within the E/2 of Section 34;
- (h) due to inadequate notification pursuant to Division Rule 1207.A (3), the administrative application was ruled incomplete by the Division on February 5, 2001, and Nearburg was duly informed by letter to provide such notice;
- (i) subsequent to Nearburg's notification, Redrock filed

objections in a timely manner with the Division on February 12 and 14, 2001; the application was then set for hearing before a Division Examiner;

- (j) pending the hearing, the Grama Ridge East "34" State Well No. 1 was allowed to continue producing gas from the East Grama Ridge-Morrow Gas Pool;
- (k) at the conclusion of the June 28, 2001 hearing, a four-week continuance was granted in order to give all the parties in this matter the opportunity to reach a mutually acceptable agreement; and
- (l) at the July 26, 2001 hearing, the Examiner ordered Nearburg to shut-in its Grama Ridge East "34" State Well No. 1 because an agreement had not been reached.

(9) The evidence and testimony presented in this case and in Division Cases No. 12441 and 12588 [see Paragraph Nos. (8) and (9) of Division Order No. R-11611] indicate that although the Nearburg Producing Company-operated Grama Ridge East "34" State Well No. 1 is completed in and producing from the Morrow formation, it is not in communication with the unitized interval of Raptor Natural Pipeline LLC's Grama Ridge Morrow Gas Storage Unit.

(10) Nearburg Exploration Company, LLC presented engineering and geological testimony in support of its application, which the Division finds inconclusive for the following reasons:

- (a) Nearburg developed a P/Z curve with bottom-hole flowing pressures instead of static reservoir pressures, and for a deep gas well such as the Grama Ridge East "34" State Well No. 1, the difference between the static reservoir pressures and bottom-hole flowing pressures can be substantial.
- (b) The gas compressibility factors or the gas deviation factors (the Z- factor) and the gas formation volume factors (Bg) depend on and change with temperature and pressure. When the pressures and the temperatures are incorrect, the calculated P/Z values are erroneous; therefore a plot of P/Z versus cumulative production will give a wrong slope, which translates into a wrong Initial Gas in Place and

Estimated Ultimate Recovery (EUR)*. Nearburg arrived at an estimated ultimate recovery of 1.1 Bcf using the material balance method, which Nearburg's witness admitted to be too low.

- (c) The decline curve analysis presented by Nearburg is not precise enough to support any conclusion about the ultimate recovery from the Grama Ridge East "34" State Well No.1. Nearburg's witness testified that the well is declining between 50 and 82 percent annually, with probable estimated ultimate recovery of 1.7 Bcf. A range of 50 to 82 percent is too wide to use as a basis for estimating ultimate recovery.
- (d) Nearburg's witness calculated an estimated ultimate recovery of 2.7 Bcf from the geological isopach map of the Grama Ridge East Morrow sands.
- (e) Haas Petroleum Consultants conducted volumetric analysis for Nearburg and demonstrated that the estimated ultimate recovery is about 3.0 Bcf. The ultimate recovery as presented in Nearburg's testimony ranges from 1.1 to 3.0 Bcf.
- (f) Using an estimated ultimate recovery of 1.7 Bcf, Nearburg presented testimony that the size of the reservoir is between 140 and 165 acres. If the size of the reservoir is between 140 and 165 acres, we can calculate the drainage radius to be between 1393 and 1513 feet respectively. Since the well is located in the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H), it is probable that the SE/4 of Section 34 is contributing recoverable hydrocarbons in this interval even under Nearburg's conservative estimates of ultimate recovery.

*EUR is calculated as follows: $EUR = [P_i/Z_i - P_a/Z_a]/\text{slope}$ where i indicates initial conditions and a indicates abandonment conditions.

(11) There is insufficient evidence to support Nearburg's contentions about the size, shape, and orientation of this producing interval or to show that the SE/4 does not contribute recoverable hydrocarbons in this interval.

(12) The application of Nearburg for approval of two non-standard 160-acre gas spacing units within the East Grama Ridge-Morrow Gas Pool comprising the NE/4 of Section 34 and the SE/4 of Section 34 should be **denied**.

(13) All past and any future Morrow gas production from the Nearburg Grama Ridge East "34" State Well No. 1, as described above, should be allocated to either: (i) the N/2 of Section 34, being a standard 320-acre lay-down gas spacing unit, in either the East Grama Ridge-Morrow Gas Pool or the Grama Ridge-Morrow Gas Pool, depending on the necessary adjustment to the pool boundaries to be sought through the Division's nomenclature process; or (ii) the E/2 of Section 34, being a standard 320-acre stand-up gas spacing unit in the East Grama Ridge-Morrow Gas Pool.

IT IS THEREFORE ORDERED THAT:

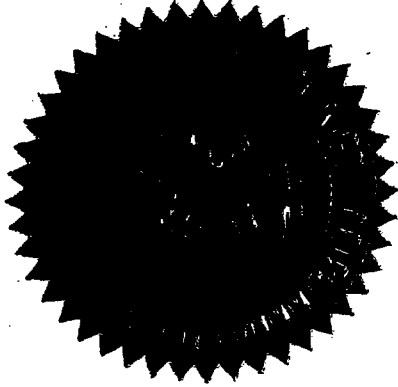
(1) The application of Nearburg Exploration Company, L.L.C., for an exception to the spacing provisions of Division Rule 104.C (2) creating two non-standard 160-acre spacing units within the East Grama Ridge-Morrow Gas Pool comprising: (i) the NE/4 of Section 34, Township 21 South, Range 34 East, NMPM, Eddy County, New Mexico, to be dedicated to the Nearburg Producing Company's existing Grama Ridge East "34" State Well No. 1 (API No. 30-025-34948), located at a standard gas well location 1548 feet from the North line and 990 feet from the East line (Unit H) of Section 34; and (ii) the SE/4 of Section 34 to be dedicated to the EOG Resources, Inc. Llano "34" State Well No. 1 (API No. 30-025-26318), located at a standard gas well location 1650 feet from the South line and 660 feet from the East line (Unit I) of Section 34, is hereby **denied**.

(2) The above-described Nearburg Producing Company Grama Ridge East "34" State Well No. 1 shall remain shut-in pending the following:

- (a) establishment of a standard 320-acre stand-up gas spacing unit comprising the N/2 or the E/2 of Section 34; and
- (b) designation of a single Division-approved operator for this unit and the applicable well dedicated thereto.

(3) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

LORI WROTENBERY
Director

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. 12908
Order No. 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.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 1, 2002, at Santa Fe, New Mexico, before Examiner David R. Catanach. *

NOW, on this 26th day of August, 2002, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.

(2) There is need for the creation of a new pool in Lea County, New Mexico for the production of gas from the Morrow formation, bearing the designation of Southwest Austin-Morrow Gas Pool (**Pool Code 96664**). The Southwest Austin-Morrow Gas Pool was discovered by the Yates Petroleum Corporation Morton Unit Well No. 1 (**API No. 30-025-33314**) located in Unit B of Section 5, Township 15 South, Range 35 East, NMPM, which was completed in the Morrow formation on December 10, 1996. The top of the perforations is at 13,207 feet.

(3) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the San Andres formation, bearing the designation of North Bagley-San Andres Pool (**Pool Code 97159**). The North Bagley-San Andres Pool was

South, Range 32 East, NMPM, which was completed in the Cisco and Canyon formations on October 18, 2001. The top of the perforations is at 10,432 feet.

(9) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Wolfcamp formation, bearing the designation of West Shoe Bar-Wolfcamp Pool (**Pool Code 97100**). The West Shoe Bar-Wolfcamp Pool was discovered by the David H. Arrington Oil & Gas, Inc. Lord Baltimore 20 State Well No. 1 (**API No. 30-025-35172**) located in Unit K of Section 20, Township 16 South, Range 35 East, NMPM, which was completed in the Wolfcamp formation on June 11, 2001. The top of the perforations is at 10,898 feet.

(10) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Glorieta formation, bearing the designation of Northwest Skaggs-Glorieta Pool (**Pool Code 97203**). The Northwest Skaggs-Glorieta Pool was discovered by the Matador Operating Company Williams 34 Well No. 3 (**API No. 30-025-35711**) located in Unit O of Section 34, Township 19 South, Range 37 East, NMPM, which was completed in the Glorieta formation on December 26, 2001. The top of the perforations is at 5,242 feet.

(11) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Simpson formation, bearing the designation of Northwest Skaggs-Simpson Pool (**Pool Code 97204**). The Northwest Skaggs-Simpson Pool was discovered by the Matador Operating Company Cooper 3 Well No. 6 (**API No. 30-025-35204**) located in Unit B of Section 3, Township 20 South, Range 37 East, NMPM, which was completed in the Simpson formation on March 6, 2001. The top of the perforations is at 9,729 feet.

(12) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Delaware formation, bearing the designation of Vaca Ridge-Delaware Pool (**Pool Code 97161**). The Vaca Ridge-Delaware Pool was discovered by the EOG Resources, Inc. Vaca Ridge 4 Federal Well No. 1 (**API No. 30-025-28491**) located in Unit C of Section 4, Township 25 South, Range 34 East, NMPM, which was completed in the Delaware formation on June 20, 2001. The top of the perforations is at 8,970 feet.

(13) There is need for the creation of a new pool in Lea County, New Mexico for the production of oil from the Cisco and Canyon formations, bearing the designation of Northeast Vacuum-Cisco-Canyon Pool (**Pool Code 97202**). The Northeast Vacuum-Cisco-Canyon Pool was discovered by the Read and Stevens, Inc. Meridith State Well No. 1 (**API No. 30-025-30903**) located in Unit F of Section 24, Township 17 South, Range 35 East, NMPM, which was completed in the Cisco and Canyon formations on March 15, 2002. The top of the perforations is at 11,069 feet.

- (b) extend the horizontal limits of the Grama Ridge-Morrow Gas Pool to include the E/2 of Section 34, Township 21 South, Range 34 East, NMPM.

(19) In the alternative, Redrock and Raptor seek to reopen that portion of Case No. 12908 described above and have this matter heard before the Oil Conservation Commission ("Commission") in conjunction with De Novo Case No. 12622, the application of Nearburg Exploration Company, L.L.C. for two non-standard gas spacing and proration units, Lea County, New Mexico, which is currently scheduled to be heard by the Commission on September 10, 2002.

(20) It appears that the proposed contraction of the East Grama Ridge-Morrow Gas Pool and the proposed extension of the Grama Ridge-Morrow Gas Pool have a direct bearing on Case No. 12622, and that approval of these pool changes at this time may be premature.

(21) By letter to the Division dated August 13, 2002, Nearburg Exploration Company, L.L.C., Great Western Drilling Company, and CL & F Resources, L.P., advised the Division that they concur with Redrock and Raptor's request to reopen that portion of Case No. 12908 described above.

(22) Redrock and Raptor's request to reopen that portion of Case No. 12908 described above should be granted.

IT IS THEREFORE ORDERED THAT:

(a) A new pool in Lea County, New Mexico classified as a gas pool for Morrow production is hereby created and designated as the Southwest Austin-Morrow Gas Pool (**Pool Code 96664**), consisting of the following described area:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 4: S/2
Section 5: N/2 and SE/4
Section 9: NE/4
Section 10: N/2

(b) A new pool in Lea County, New Mexico classified as an oil pool for San Andres production is hereby created and designated as the North Bagley-San Andres Pool (**Pool Code 97159**), consisting of the following described area:

TOWNSHIP 11 SOUTH, RANGE 33 EAST, NMPM

Section 10: SE/4

TOWNSHIP 19 SOUTH, RANGE 37 EAST, NMPM
Section 34: SE/4

(j) A new pool in Lea County, New Mexico classified as an oil pool for Simpson production is hereby created and designated as the Northwest Skaggs-Simpson Pool (**Pool Code 97204**), consisting of the following described area:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 3: NE/4

(k) A new pool in Lea County, New Mexico classified as an oil pool for Delaware production is hereby created and designated as the Vaca Ridge-Delaware Pool (**Pool Code 97161**), consisting of the following described area:

TOWNSHIP 25 SOUTH, RANGE 34 EAST, NMPM
Section 4: NW/4

(l) A new pool in Lea County, New Mexico classified as an oil pool for Cisco and Canyon production is hereby created and designated as the Northeast Vacuum-Cisco-Canyon Pool (**Pool Code 97202**), consisting of the following described area:

TOWNSHIP 17 SOUTH, RANGE 35 EAST, NMPM
Section 24: NW/4

(m) A new pool in Lea County, New Mexico classified as an oil pool for Wolfcamp production is hereby created and designated as the South Wilson-Wolfcamp Pool (**Pool Code 97162**), consisting of the following described area:

TOWNSHIP 21 SOUTH, RANGE 35 EAST, NMPM
Section 18: NE/4

(n) The Southwest Austin-Mississippian Gas Pool (**Pool Code 96242**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM
Section 12: SW/4
Section 13: W/2 and SE/4

(o) The Baish-Wolfcamp Pool (**Pool Code 4480**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 17 SOUTH, RANGE 32 EAST, NMPM
Section 20: N/2

(p) The vertical limits of the Cuerno Largo-Pennsylvanian Pool (**Pool Code 14980**) in Lea County, New Mexico are hereby extended to include the Cisco, Canyon

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM
Section 20: S/2

(w) The East Featherstone-Bone Spring Pool (**Pool Code 24270**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 35 EAST, NMPM
Section 14: NE/4

(x) The Four Lakes-Mississippian Gas Pool (**Pool Code 97053**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 12 SOUTH, RANGE 34 EAST, NMPM
Section 1: W/2 and SE/4

TOWNSHIP 12 SOUTH, RANGE 35 EAST, NMPM
Section 6: SW/4
Section 7: NW/4

(y) The Gem-Morrow Gas Pool (**Pool Code 77370**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM
Section 24: E/2

(z) The West Grama Ridge-Bone Spring Pool (**Pool Code 28432**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 22 SOUTH, RANGE 34 EAST, NMPM
Section 8: NE/4
Section 9: W/2

(aa) The East Grama Ridge-Morrow Gas Pool (**Pool Code 77690**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 21 SOUTH, RANGE 34 EAST, NMPM
Section 26: W/2

(bb) The North Hardy-Strawn Pool (**Pool Code 96893**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM
Section 36: NW/4

(cc) The North Hardy-Tubb-Drinkard Pool (**Pool Code 96356**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 4: N/2

Section 5: NE/4

(jj) The West Monument-Tubb Gas Pool (**Pool Code 96968**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 37 EAST, NMPM

Section 6: E/2

(kk) The North Morton-Atoka Gas Pool (**Pool Code 96676**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 14 SOUTH, RANGE 35 EAST, NMPM

Section 32: S/2

(ll) The Nadine-Drinkard-Abo Pool (**Pool Code 47510**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 38 EAST, NMPM

Section 15: SE/4

(mm) The West Red Tank-Delaware Pool (**Pool Code 51689**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 23 SOUTH, RANGE 32 EAST, NMPM

Section 1: NW/4

(nn) The Southeast Scharb-Wolfcamp Pool (**Pool Code 55650**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 35 EAST, NMPM

Section 21: SE/4

(oo) The Northwest Skaggs-Drinkard Pool (**Pool Code 96768**) in Lea County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 37 EAST, NMPM

Section 34: NE/4

Section 35: NW/4

(pp) The North Teague-Wolfcamp Pool (**Pool Code 96961**) in Lea County, New Mexico is hereby extended to include:

days from the effective date of this order to file Form C-102 dedicating a standard unit for the pool to that well or to obtain a non-standard unit approved by the Division. Pending such compliance, the well shall receive a maximum allowable in the same proportion to a standard allowable for the pool that the acreage dedicated to the well bears to a standard unit for the pool. Failure to file Form C-102 dedicating a standard unit to the well or to obtain a non-standard unit approved by the Division within that 60-day period shall subject the well to cancellation of allowable.

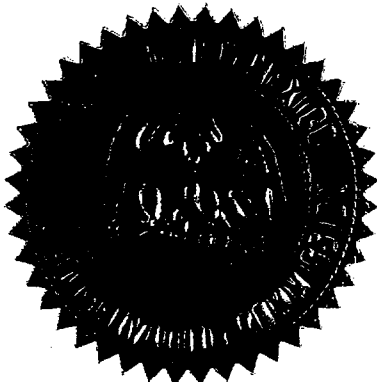
(2) The effective date of this order and all creations, contractions, redesignations, and extensions of vertical and horizontal limits included herein shall be September 1, 2002.

(3) That portion of Case No. 12908 that seeks to:

- (a) contract the horizontal limits of the East Grama Ridge-Morrow Gas Pool (**Pool Code 77690**) by deleting the E/2 of Section 34, Township 21 South, Range 34 East, NMPM; and
- (b) extend the horizontal limits of the Grama Ridge-Morrow Gas Pool (**Pool Code 77680**) to include the E/2 of Section 34, Township 21 South, Range 34 East, NMPM;

is hereby severed from this case and assigned Case No. 12908-A. Case No. 12908-A shall be docketed for hearing before the Oil Conservation Commission on September 10, 2002, and heard in conjunction with De Novo Case No. 12622, the application of Nearburg Exploration Company, L.L.C. for two non-standard gas spacing and proration units, Lea County, New Mexico.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director