



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

SG Interests, I, Ltd.

Sagle & Schwab Energy Resources

P. O. Box 2677

Durango, Colorado 81302

July 29, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Telefax No. (970) 385-1598

Attention: Lynn Garner

Administrative Order NSL-5088

Dear Mr. Garner:

Reference is made to the following: (i) your application on behalf of the operator, SG Interests, I, Ltd. ("SGI") dated June 11, 2004 that was submitted to the New Mexico Oil Conservation Division ("Division") on June 21, 2004 (***administrative application reference No. pMES0-417546110***); (ii) my initial response by letter dated June 23, 2004 concerning notice to affected offsetting parties; (iii) my telephone conversation with Ms. Marcia Stewart on Tuesday, June 29, 2004; (iv) the required supplemental data necessary to complete this application submitted to the Division by Ms. Stewart on July 9, 2004; and (v) the Division's records in Aztec and Santa Fe: all concerning SGI's request for an exception to the well location requirements [Rule 7 (a) (1)] provided within the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*," as promulgated by Division Order No. R-8768, as amended, for a non-standard infill gas well location within an existing 320-acre stand-up gas spacing unit for the Basin-Fruitland Coal (Gas) Pool (71629) comprising the W/2 of Section 27, Township 29 North, Range 9 West, NMPM, San Juan County, New Mexico.

This application has been duly filed under the provisions of: (i) Rule 7 (b) of the "*Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool*"; (ii) Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission ("Commission") in Case No. 12119 on August 12, 1999; and (iii) Rule 1207.A (2), revised by Division Order No. R-11205, issued by the Commission in Case No. 12177 on June 17, 1999.

This unit is currently dedicated to SGI's Federal "29-9-27" Well No. 2 (API No. 30-045-28762), located at a standard coal gas well location 1325 feet from the South line and 1470 feet from the West line (Unit K) of Section 27.

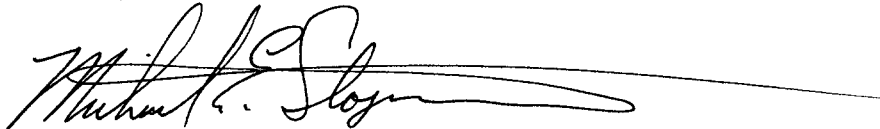
By the authority granted me under the applicable provisions of the special pool rules governing the Basin-Fruitland Coal (Gas) Pool and Division Rule 104.F (2), the following described unorthodox infill gas well location to be drilled within the above-described 320-acre stand-up coal gas spacing unit is hereby approved:

Federal "29-9-27" Well No. 3
365' FNL & 1935' FWL (Unit C).

Further, SGI is hereby authorized to simultaneously dedicate production attributed to the Basin-Fruitland Coal (Gas) Pool from its existing Federal "29-9-27" Well No. 2 with its proposed Federal "29-9-27" Well No. 3.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal flourish extending to the right.

Michael E. Stogner
Engineer/Hearing Officer

MS/mes

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management - Farmington