



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

October 27, 2004

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Fasken Oil and Ranch, Ltd.
c/o **W. Thomas Kellahin**
P. O. Box 2265
Santa Fe, New Mexico 87504-2265

Administrative Order NSL-5125

Dear Mr. Kellahin:

Reference is made to the following: (i) your application (*administrative application reference No. pSEM0-429440074*) submitted to the New Mexico Oil Conservation Division ("Division") on October 18, 2004 on behalf of the operator, Fasken Oil and Ranch, Ltd. ("Fasken"); and (ii) the Division's records in Artesia and Santa Fe: all concerning Fasken's request for an exception to Division Rule 104.B (1) for its existing Lake Shore "10" Federal Well No. 5 (API No. 30-015-33234), to be recompleted in the Delaware formation at an unorthodox oil well location 1500 feet from the North line and 1980 feet from the East line (Lot 5/Unit G) of Section 10, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico:

Lot 5 (SW/4 NE/4 equivalent) of Section 10, being a standard 40.77-acre oil spacing and proration unit in the East Catclaw Draw-Delaware Pool (10500), is to be dedicated to this well.

This application has been duly filed under the provisions of Division Rules 104.F and Rule 1207.A (2).

From the Division's records and your application, it is our understanding Fasken permitted this well only as a deep Morrow test within the 325.16-acre, more or less, standard deep gas spacing unit comprising the E/2 equivalent of Section 10 (see the "Application for Permit to Drill" dated December 2, 2003) at a standard deep gas well location, pursuant to Division Rule 104.C (2) (a), within the Avalon-Morrow Gas Pool (70920). Fasken spud this well on March 3, 2004, drilled to a total depth of 11,075 feet through the Morrow formation that tested "non-commercial," but was subsequently completed as an infill well in the Avalon-Upper Pennsylvanian Gas Pool (71000) with first production on May 20, 2004. The E/2 equivalent of Section 10, being a standard 325.16-acre, more or less, gas spacing unit within the Avalon-Upper Pennsylvanian Gas Pool, is currently simultaneously dedicated to Fasken's: (i) Lake Shore "10" Federal Com. Well No. 2 (API No. 30-015-29879) located at a standard gas well location 1750 feet from the South line and 660 feet from the East line (Lot 7/Unit I) of Section 10; and (ii) above-described Lake Shore "10" Federal Well No. 5, which is located at a standard infill upper-Pennsylvanian gas well location pursuant to Division Rule 104.C (2) (b).

It is further understood that this upper Pennsylvanian gas production is "substantially depleted" and that it is Fasken's intent to plug-back to test the oil bearing Delaware formation within the above-described 40.77-acre oil spacing and proration unit.

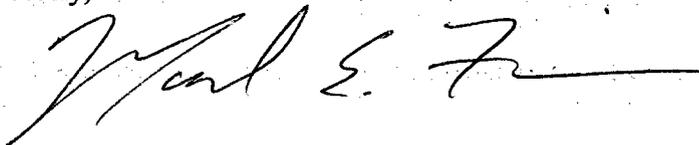
Also, the above-described 40.77-acre unit and the encroached upon spacing unit (Lot 1/Unit B of Section 10) is included within a single Federal lease issued by the U. S. Bureau of Land Management (*U. S. Government lease No. NM-3160-3*) with common mineral interests (working, royalty, and overriding royalty) in which Fasken is the leasehold operator; therefore, there are no adversely affected interests to the proposed 40.77-acre oil spacing and proration unit within the Delaware interval.

By the authority granted me under Division Rule 104.F (2), the above-described unorthodox Delaware oil well location for Fasken's Lake Shore "10" Federal Well No. 5 is hereby approved.

AS AN OBSERVATION, the Division suggests that all operators take additional steps to stake wells at, or avoid moving well locations from, spots considered to be standard for all possible zones to be encountered and should be aware of well location requirements for different producing horizons within their immediate area of operations.

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/mes

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad