



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

January 11, 2000

Kerr-McGee Oil & Gas Onshore, L.L.C.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Telefax No. (505) 982-2151

Administrative Order NSL-4386(SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your initial application dated December 22, 1999 on behalf of the operator Kerr-McGee Oil & Gas Onshore, L.L.C. ("Kerr-McGee"); (ii) a copy of Kerr-McGee's notification letter dated December 22, 1999 to Yates Petroleum Corporation; (iii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe, including the file in Case No. 11189; and (iv) your letter dated December 28, 1999 with supplemental data: all concerning Kerr-McGee's request for a second infill gas well to be drilled at an unorthodox gas well location within an existing 674.28-acre gas spacing and proration unit ("GPU") comprising all of irregular Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

The Division Director Finds That:

(1) Kerr-McGee is proposing to drill its Conoco State (Gas Com.) Well No. 6 at a location that is 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico;

(2) The Indian Basin-Upper Pennsylvanian Gas Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

Section 3:	W/2
Section 4:	All
Sections 8 and 9:	All
Section 10:	W/2
Section 15:	W/2
Sections 16 through 30:	All
Sections 32 through 35:	All
Section 36:	W/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 19: All

TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

Section 1: W/2
Sections 2 through 5: All
Sections 8 through 11: All
Section 12: W/2
Section 13: W/2
Sections 14 through 17: All
Section 21: N/2
Section 22: All;

(3) The Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool currently governed by the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*," as promulgated by Division Order No. R-8170, as amended, which require standard 640-acre GPU's with wells to be located no closer than 1650 feet from the outer boundary of the GPU nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary;

(4) All of Section 2 is currently simultaneously dedicated to Kerr-McGee's: (i) Conoco State Gas Com. Well No. 1 (API No. 30-015-10619), located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of Section 2; and (ii) Conoco State Gas Com. Well No. 2 (API No. 30-015-28510), located at an unorthodox gas well location 800 feet from the South and West lines (Unit M) of Section 2;

(5) By Order No. R-10359, issued in Case No. 11189 dated May 2, 1995, the Division authorized: (i) the drilling of the above-described Conoco State Gas Com. Well No. 2 at an unorthodox gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool; and (ii) officially assigned this GPU an acreage factor of 0.62 for gas prorationing purposes, which assesses a 38% production penalty on Indian Basin-Upper Pennsylvanian Gas Pool production from this GPU; and

(6) The subject application for Kerr-McGee's proposed Conoco State Well No. 6 has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Rule 2 (d) of the Indian Basin-Upper Pennsylvanian Gas Pool special rules and Division Rule 104.F (2), Kerr-McGee Oil & Gas

Onshore, L.L.C. ("Kerr-McGee") is hereby authorized to drill its proposed Conoco State (Gas Com.) Well No. 6 at an unorthodox second-infill gas well location in the Indian Basin-Upper Pennsylvanian Gas Pool 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico.

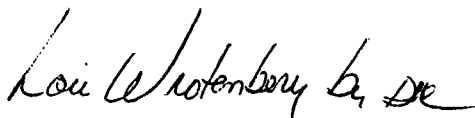
(2) The existing 674.28-acre gas spacing and proration unit ("GPU") within the Indian Basin-Upper Pennsylvanian Gas Pool that comprises all of irregular Section 2 is to be simultaneously dedicated to Kerr-McGee's: (i) existing Conoco State Gas Com. Well No. 1 (API No. 30-015-10619), located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of Section 2; (ii) existing Conoco State Gas Com. Well No. 2 (API No. 30-015-28510), located at an unorthodox gas well location (approved by Division Order No. R-10359, issued in Case No. 11189 dated May 2, 1995) 800 feet from the South and West lines (Unit M) of Section 2; and (iii) proposed Conoco State (Gas Com.) Well No. 6, as described above.

It Is Further Ordered That:

(3) As prescribed in Division Order No. R-10359, Kerr-McGee is hereby permitted to produce the allowable assigned the subject GPU from all three wells in any proportion; **provided however**, total combined gas production from these three wells shall not exceed that volume assigned this GPU with its assessed acreage factor of 0.62.

(4) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
W. Thomas Kellahin, Counsel for Marathon Oil Company - Santa Fe
File: Case No. 11189