



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

May 30, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Murchison Oil & Gas, Inc.
c/o **James Bruce**
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSP-1898 (NSL)

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pTDS0-611735069*) filed on behalf of the operator Murchison Oil & Gas, Inc. ("Murchison") and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on April 27, 2006; (ii) your e-mail sent to Mr. Michael E. Stogner, Engineer with the Division in Santa Fe on Tuesday morning, May 30, 2006 checking on the status of this application; and (iii) the Division's records in Artesia and Santa Fe: all concerning Murchison's request to develop the Hightower-Devonian Pool (31160) underlying a non-standard 80-acre lay-down oil spacing and proration unit comprising the N/2 NE/4 of Section 27, Township 12 South, Range 33 East, NMPM, Hightower State Exploratory Unit Area (see Division Order No. R-12512, issued in Case No. 13645 on February 27, 2006), Lea County, New Mexico, with its proposed Hightower State Unit Well No. 1 to be drilled at an unorthodox oil well location 660 feet from the North line and 1300 feet from the East line (Unit A) of Section 27.

Your application for Murchison has been duly filed under the provisions of the following rules and regulations:

- (a) Order No. 846, issued by the New Mexico Oil Conservation Commission ("Commission") in Case No. 198 on November 18, 1949, which adopted Rules for the Hightower-Devonian Pool that established, in part, 80-acre (oil) proration units and a uniform pattern for the spacing and drilling of wells to the Devonian formation within the area comprising Sections 22, 23, 26, and 27 of Township 12 South, Range 33 East, NMPM, Lea County, New Mexico;
- (b) Division Rule 104.D;
- (c) Division Rule 104.F; and

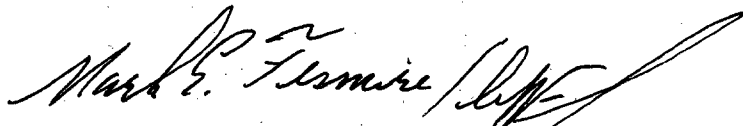
(d) Division Rule 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

It is the Division's understanding that the E/2 of Section 27 comprises a single state lease issued by the New Mexico State Land Office (*State Lease No. V-7612*) in which Murchison is the leasehold operator and that all mineral interests therein is common.

The geologic interpretation submitted with this application indicates that a well drilled at the proposed unorthodox oil well location will be at a more favorable geologic position within the Devonian formation than a well drilled at a location considered standard within the NE/4 of Section 27. Also, by orienting the required 80-acre unit as a lay-down tract rather than a stand-up, the proposed well is encroaching only upon the interior line within the unit.

By the authority granted me under the provisions of Division Rules 104.D (2) (b) and 104.F (2), the above-described non-standard 80-acre lay-down oil spacing and proration unit in the Hightower-Devonian Pool and unorthodox Devonian oil well location for Murchison's proposed Viersen Federal Well No. 3 is hereby approved.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe