



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

July 13, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Prime Operating Company
3300 North "A"
Building One - Suite 238
Midland, Texas 79705

Attention: Earl Levea
District Manager

Administrative Order NSP-1056-C (L) (SD)

Dear Mr. Levea:

Reference is made to the following: (i) your initial application filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on May 8, 2006 (*administrative application reference No. pTDS0-612855545*); (ii) Ms. Candy Lyle's telephone conversations with Mr. Michael E. Stogner, Staff Engineer with the Division in Santa Fe, on Monday, June 19, 2006; (iii) yours and Mr. Stogner's telephone conversation on Monday afternoon, June 19, 2006; (iv) Ms. Lyle's reply by letter dated June 20, 2006 with the necessary information to complete your application; and (v) the Division's records in Santa Fe, including the files in Division Cases No. 217, 673, 2159, 3725, and 4485 and on Division Administrative Orders NSP-200, NSP-872, NSP-1056, NSP-1056-A (L) (SD), NSP-1056-B (L), NSP-1257, and SD-96-3: all concerning Prime Operating Company's ("Prime") request for a non-standard 560.12-acre gas spacing unit comprising the following acreage in the Jalmat Gas Pool (79240):

LEA COUNTY, NEW MEXICO

TOWNSHIP 25 SOUTH, RANGE 36 EAST, NMPM

Section 1: Lots 1 through 4, S/2 NE/4, SW/4 NW/4, NE/4 SW/4, S/2 SW/4, and SE/4.

This application has been duly filed under the provisions of the "Special Pool Rules for the Jalmat Gas Pool," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001.

The proposed 560.12-acre Jalmat gas spacing unit, which will consolidate acreage: (i) included within Prime's Wells "B" federal lease (*U. S. Government leases No. NMLC-03258-B*) and Wells "A" federal lease (*U. S. Government lease No. NMLC-032582-A*); and (ii) within existing Jalmat spacing units, is to be simultaneously dedicated to Prime's existing:

- (1) Wells "B-1" Well No. 1 (*API No. 30-025-09718*), which well was the subject of Division Cases No. 217 (see Division Order No. R-28, dated July 28, 1950), 673 (see Division Order No. R-520, dated August 12, 1954), 2159 (see Division Order No. R-1866, dated February 8, 1961), and 3725 (see Division Order No. R-1866-A, dated March 4, 1968), and is located at a standard Jalmat gas well location 660 feet from the North and East lines (Lot 1/Unit A) of Section 1:

(2) Wells "B-1" Well No. 6 (*API No. 30-025-32345*), located at a standard Jalmat gas well location 660 feet from the North line and 1980 feet from the East line (Lot 2/Unit B) of Section 1;

(3) Wells "B-1" Well No. 3 (*API No. 30-025-21460*), which well was also the subject of Division Case No. 3725 (see Division Order No. R-1866-A); this well is located at a standard surface Jalmat gas well location 660 feet from the North line and 1650 feet from the West line (Lot 3/Unit C) of Section 1 and will be recompleted as a high angle/horizontal drainhole by milling a window in the casing at 2,630 feet and side-track out of the vertical wellbore to the southwest; build angle until an 81-degree, more or less, deviation off of vertical is achieved at an approximate measured depth of 2,769 feet (MD); and continue to drill laterally for an approximate distance of 1,600 feet to a bottomhole location, or end-point, within the gas bearing Yates formation at a targeted subsurface location approximately 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 1; however, pursuant to Rule 3 (A) (2) of the special rules governing the Jalmat Gas Pool and Division Rules 111.A (13) and C (2) the proposed path of this high angle/lateral wellbore is considered to be unorthodox; ***It shall be noted however that the path of the proposed high angle/horizontal recompletion of this well shall not penetrate or pass through the SE/4 NW/4 (Unit F) of Section 1, otherwise this order shall become null and void;***

(4) Wells "A" Well No. 10 (*API No. 30-025-32938*), which well was the subject of Division Administrative Order SD-96-3, dated March 5, 1996, and is located at a standard Jalmat gas well location 660 feet from the North and West lines (Lot 4/Unit D) of Section 1;

(5) Wells "A" Well No. 2 (*API No. 30-025-09720*), which well was the subject of Division Administrative Order NSP-200, dated November 7, 1955, Division Case No. 4485 (see Division Order No. R-4090, dated January 15, 1971), Division Administrative Order NSP-1257, dated July 17, 1981, and said Division Administrative Order SD-96-3, and is located at a standard Jalmat gas well location 1980 feet from the North line and 660 feet from the West line (Unit E) of Section 1;

(6) Wells "B-1" Well No. 7 (*API No. 30-025-32756*), which well was the subject of Division Administrative Orders NSP-1056-A (L) (SD), dated July 6, 1995, and NSP-1056-B (L), dated March 11, 1996, and is located at a standard Jalmat gas well location for the proposed 560.12-acre non-standard unit 1930 feet from the North line and 1780 feet from the East line (Unit G) of Section 1;

(7) Wells "B-1" Well No. 4 (*API No. 30-025-25532*), which well was the subject of Division Administrative Order NSP-1056, dated August 17, 1977 and said Division Administrative Orders NSP-1056-A (L) (SD) and NSP-1056-B (L), and is located at a standard Jalmat gas well location 1980 feet from the South line and 660 feet from the East line (Unit I) of Section 1; and

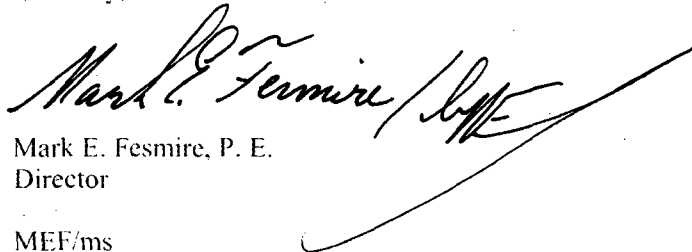
(8) Wells "A" Well No. 8 (*API No. 30-025-23857*), which well was the subject of Division Administrative Orders NSP-872, dated February 16, 1972, and is located at an unorthodox Jalmat gas well location for the proposed 560.12-acre non-standard unit 990 feet from the South line and 1650 feet from the West line (Unit N) of Section 1.

By the authority granted me under the provisions of Rules 4 (A), (B), (C) (1) (b), and (D) of the special rules now governing the Jalmat Gas Pool and Division Rule 111.C (2), the above-described: (i) non-standard 560.12-acre Jalmat gas spacing unit; (ii) unorthodox Jalmat gas well location for Prime's existing Wells "A" Well No. 8; (iii) the proposed unorthodox subsurface location of Prime's high angle/horizontal recompletes of its Wells "B-1" Well No. 3; and (iv) simultaneous dedication of this 560.12-acre Jalmat gas spacing unit to Prime's eight above described Wells "A" Wells No. 2, 8, and 10 and Wells "B-1" Wells No. 1, 3, 4, 6, and 7, are hereby approved.

At this time Division Administrative Orders NSP-1056-B (L), NSP-872, NSP-1257, and SD-96-3 are hereby placed in abeyance until further notice.

Jurisdiction of this matter shall be further retained for the entry of any such subsequent orders, as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division -- Hobbs
U. S. Bureau of Land Management -- Carlsbad
Ms. Candy Lyle (*clyle@primeenergy.com*), Prime Operating Company -- Midland, TX
Files: Division Case No. 217
Division Case No. 2159
Division Case No. 3725
Division Case No. 4485
Division Administrative Order NSP-200
Division Administrative Order NSP-872
Division Administrative Order NSP-1056
Division Administrative Order NSP-1056-A (L) (SD)
Division Administrative Order NSP-1056-B (L)
Division Administrative Order NSP-1257
Division Administrative Order SD-96-3