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October 18, 2007

VIA HAND DELIVERY

Mark E. Fesmire, P.E.
Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: Case No. 13991: Application of Chevron USA, Inc. for approval of a pilot project for the purpose of determining proper well density requirements for wells in the Basin-Fruitland Coal Gas Pool, San Juan, Rio Arriba, McKinley and Sandoval Counties, New Mexico.

Dear Mr. Fesmire:

Chevron USA, Inc. filed its application in the above-referenced case seeking authorization to implement a pilot project in the Basin-Fruitland Coal Gas Pool.

As you may be aware, the Division filed a pre-hearing statement in this case in which it asked the Examiner to postpone resolution of this application to allow the Coalbed Methane Committee "time to fully and properly address the spacing and infill issues in a way that best serves the oil and gas community as a whole."

The purpose of the Chevron application was not to force an improper or premature determination of any issue but was an attempt to collect information that we believe would have been useful to Chevron and other operators as we collectively attempt to examine (i) the possible need for increased well density in this reservoir, and (ii) the ways to accomplish increased density in accordance with the goals and policies of affected Federal and State administrative agencies. We think our application was a logical first step toward exercising our right to initiate a rulemaking under Division Rule 1201.A.

In its pre-hearing statement, the Division also states that Chevron has been invited to participate in the work of the Coalbed Methane Committee "and has not." This statement is incorrect. Chevron has participated in the work of the Committee, and intends to participate in the future work of this Committee. It is our understanding that the initial effort to examine this issue was not at the behest of the Oil Conservation

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Division but was a collective effort of certain San Juan Basin operators to re-examine this spacing issue. Only recently did the OCD decide to assume a role in this endeavor.

Chevron does not challenge the authority of the Division to name a committee to examine any issue within its jurisdiction. Similarly, Chevron does not challenge the Division's authority to make policy decisions to delay consideration of certain types of cases under appropriate circumstances. However, we are unaware of any situation in the past where the Division has attempted to exercise this type of control over an operator who has brought an applications before it for approval of a pilot project. We are also unaware of any policy decision by the Division to prevent mineral interest owners from seeking approval of pilot projects for the purpose of gathering information under the existing rules until a committee or work group has reviewed a matter.

If it is the Division's policy that it will prevent individual operators from gathering information for use in determining whether or not to initiate a rulemaking proceeding under Rule 1201, if the same subject is under consideration by a Division Committee or work group, we request that the Division announce this policy to the industry and amend its rules accordingly. We suggest that a clearly announced policy would be a more appropriate way for the Division to address this situation than, as here, opposing an individual application for a pilot project after substantial internal costs and effort have been incurred to develop a project and prepare a case for presentation to the Division.

Your attention to this matter is appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read "William F. Carr".

William F. Carr

cc: Paul R. Owen, Esq.
Senior Counsel
Chevron USA, Inc.

Steve Hayden
Oil Conservation Division

Mikal Altomare, Esq.
Oil Conservation Division