



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

June 29, 1998

Costilla Energy, Inc.
c/o James Bruce
P.O. Box 1056
Santa Fe, New Mexico 87504-1056

12013

Re: *Administrative application on behalf of Costilla Energy, Inc. to drill its proposed Funk "49" Well No. 1 at an unorthodox gas well location in the POW-Morrow Gas Pool 1650' FSL & 1080' FWL (Unit L) of Section 33, Township 16 South, Range 26 East, NMPM, Eddy County, New Mexico.*

Dear Mr. Bruce:

On June 26, 1998, the Division received an objection from Nearburg Exploration Company, L.L.C. to the subject application, see copy of the letter attached. This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for July 23, 1998 and will be advertised in the following manner:

"Application of Costilla Energy, Inc. for an unorthodox gas well location, Eddy County, New Mexico. Applicant seeks approval to drill its Funk "49" Well No. 1 at an unorthodox Morrow gas well location 1650 feet from the South line and 1080 feet from the West line (Unit L) of Section 33, Township 16 South, Range 26 East, located approximately 2.5 miles north of the junction of U.S. Highways 285 and 82 in Artesia, New Mexico. The S/2 of said Section 33 is to be dedicated to said well in order to form a standard 320-acre gas spacing and proration unit in the POW-Morrow Gas Pool."

Further, my review of this application indicates a discrepancy that will require additional explanation and information by Costilla Energy, Inc. at that time. In your application it was stated that this well was originally staked at an orthodox gas well location within the proposed standard 320-acre gas spacing and proration unit comprising the S/2 of said Section 33 1650 feet from the South line and 1980 feet from the West line (Unit K). Our records indicate that the original location was to be drilled at a standard gas well location 990 feet from the South line and 1980 feet from the East line (Unit O) of said Section 33 (see copy of APD and C-102 that was received by the Artesia District Office of the NMOCD in December 1997 attached). What was the purpose of this move? Were these location changes influenced in any way by geology?

Please provide adequate notice pursuant to Rule 1207.A(5) of the Division's General Rules and Regulations.

Should you have any questions concerning this matter, please contact me in Santa Fe at (505) 827-8185.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Artesia
Nearburg Exploration Company, L.L.C., c/o W. Thomas Kellahin - Santa Fe