



Preston

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Preston Exploration, LLC

c/o R. K. Ford & Associates, Inc.

415 West Wall – Suite 1700

Wilco Building

Midland, Texas 79701

January 29, 2004

Lori Wrotenbery

Director

Oil Conservation Division

Attention: Sandra Nobles

Re: *Administrative application dated January 7, 2004 (administrative application reference No. pLR0-401330474) for an exception to Division Rule 104.C (2) (a), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, for Preston Exploration, LLC's ("Preston") proposed San Remo "32" Well No. 1 to be drilled at an unorthodox deep gas well location 1980 feet from the North line and 2130 feet from the West line (Unit F) of Section 32, Township 16 South, Range 26 East, NMPM, Eddy County, New Mexico. The N/2 of Section 32 to be dedicated to this well in order to form a standard 320-acre lay-down deep gas spacing unit within both the Undesignated POW-Morrow Gas Pool (83040) and Undesignated POW-Atoka Gas Pool (97624).*

Dear Ms. Nobles:

The Division requires well location exception requests be considered for good cause shown and with reasonable supporting documentation and evidence. Your application provided nothing to base such a request or any information to support why the requested unorthodox deep gas well location is needed in this matter. Reviewing the information provided at face value and assuming no other factors, there is no apparent reason why this well cannot be moved to the west or northwest that meet the required standard set-back requirements for deep gas wells in southeast New Mexico.

Therefore, your application for administrative approval for the above-described unorthodox deep Atoka and Morrow gas well location is hereby **denied** and is being returned to you at this time.

The conservation rules in all oil and gas producing states governing well spacing and the placement of these wells within such drilling tracts and proration units have been enacted to promote the orderly development of that states valuable oil and gas resources by preventing waste, protecting correlative rights, and preventing the drilling of unnecessary wells. It is very easy to get into a mode of thinking that considers these rules as minor inconveniences and applications for exceptions as "open and shut" issues. I have enclosed a packet of information containing guidelines for such well location exceptions.

Please note, your application requested the Cisco/Canyon interval be included. The 40-acre tract (Unit "F" of Section 32) where Preston is proposing to drill this well is within one-mile of the Northwest Logan Draw-Cisco Canyon Pool (96871), and pursuant to Division Rule 104.B (1), is subject to the Division's "oil" spacing/well location rules requiring 40-acre spacing and proration units and for wells to be no closer than 330 feet to any quarter-quarter section line.

Sincerely,

Michael E. Stogner

Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division – Artesia



R. K. FORD & ASSOCIATES
Engineering, Drilling & Completion

415 West Wall
Suite 1700 • Wilco Building
Midland, Texas 79701

(432) 682-0440
Fax (432) 682-0441
e-mail: randell@rkford.com

RECEIVED

January 7, 2004

JAN 12 2004

Mr. Richard Ezeanyim
New Mexico Oil Conservation Division OIL CONSERVATION
1220 South St. Francis Drive, DIVISION
Santa Fe, New Mexico 87505

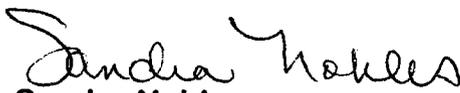
Dear Mr. Ezeanyim:

Enclosed please find a copy of a letter I sent to all the Working, Royalty or Overriding Royalty Interest Owners and offset operator (address list enclosed), along with a copy of the Application for a Permit to Drill (Form C-101) and a copy of a Well Location and Acreage Dedication Plat (Form C-102) for the Preston Exploration, LLC San Remo 32 #1 in Eddy County, New Mexico and the Administrative Application Checklist. The proposed location is a non-standard location and Preston Exploration, LLC is requesting an exception to the Division Rules and Regulations from the New Mexico Oil Conservation Division in Santa Fe, New Mexico (please note that this application covers the Morrow, Atoka, and/or Cisco/Canyon).

When I receive the receipts from the certified letters, I will forward a copy of those to you. Please let me know if any additional information is needed. Thank you for your assistance in this matter.

Sincerely,

R. K. Ford & Associates, Inc.


Sandra Nobles

/sn
Enclosures

DATE IN 1/12/04	SUSPENSE 2/1/04	ENGINEER MS	LOGGED IN LR	TYPE NSL	APP NO. PLR0401330474
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ABOVE THIS LINE FOR DIVISION USE ONLY

NEW MEXICO OIL CONSERVATION DIVISION
 - Engineering Bureau -
 1220 South St. Francis Drive, Santa Fe, NM 87505



ADMINISTRATIVE APPLICATION CHECKLIST

THIS CHECKLIST IS MANDATORY FOR ALL ADMINISTRATIVE APPLICATIONS FOR EXCEPTIONS TO DIVISION RULES AND REGULATIONS WHICH REQUIRE PROCESSING AT THE DIVISION LEVEL IN SANTA FE

Application Acronyms:

- [NSL-Non-Standard Location] [NSP-Non-Standard Proration Unit] [SD-Simultaneous Dedication]**
[DHC-Downhole Commingling] [CTB-Lease Commingling] [PLC-Pool/Lease Commingling]
[PC-Pool Commingling] [OLS - Off-Lease Storage] [OLM-Off-Lease Measurement]
[WFX-Waterflood Expansion] [PMX-Pressure Maintenance Expansion]
[SWD-Salt Water Disposal] [IPI-Injection Pressure Increase]
[EOR-Qualified Enhanced Oil Recovery Certification] [PPR-Positive Production Response]

[1] **TYPE OF APPLICATION - Check Those Which Apply for [A]**

- [A] Location - Spacing Unit - Simultaneous Dedication
 NSL NSP SD

Check One Only for [B] or [C]

- [B] Commingling - Storage - Measurement
 DHC CTB PLC PC OLS OLM

- [C] Injection - Disposal - Pressure Increase - Enhanced Oil Recovery
 WFX PMX SWD IPI EOR PPR

- [D] Other: Specify _____

[2] **NOTIFICATION REQUIRED TO: - Check Those Which Apply, or Does Not Apply**

- [A] Working, Royalty or Overriding Royalty Interest Owners
 [B] Offset Operators, Leaseholders or Surface Owner
 [C] Application is One Which Requires Published Legal Notice
 [D] Notification and/or Concurrent Approval by BLM or SLO
U.S. Bureau of Land Management - Commissioner of Public Lands, State Land Office
 [E] For all of the above, Proof of Notification or Publication is Attached, and/or,
 [F] Waivers are Attached

[3] **SUBMIT ACCURATE AND COMPLETE INFORMATION REQUIRED TO PROCESS THE TYPE OF APPLICATION INDICATED ABOVE.**

[4] **CERTIFICATION:** I hereby certify that the information submitted with this application for administrative approval is **accurate and complete** to the best of my knowledge. I also understand that **no action** will be taken on this application until the required information and notifications are submitted to the Division.

Note: Statement must be completed by an individual with managerial and/or supervisory capacity.

Sandra Nobles

Consultant

December 29, 2003

 Print or Type Name Signature Title Date

Sandra@rkford.com

SAMPLE LETTER

January 5, 2004

**AVE, Inc.
P. O. Box 114
Lewisville, TX 75067**

Gentlemen:

Enclosed please find a copy of an Application for a Permit to Drill (Form C-101) and a copy of a Well Location and Acreage Dedication Plat (Form C-102) for the Preston Exploration, LLC San Remo 32 #1 in Eddy County, New Mexico. The proposed location is a non-standard location and Preston Exploration, LLC is requesting an exception to the Division Rules and Regulations from the New Mexico Oil Conservation Division in Santa Fe, New Mexico.

If you have any questions or object to this Application, please contact Mr. Richard Ezeanyim at the Engineering Bureau of the New Mexico Oil Conservation Division, 1220 South St. Francis Drive, Santa Fe, New Mexico 87505 (505-476-3467).

Sincerely,

R. K. Ford & Associates, Inc.

Sandra Nobles

**/sn
Enclosures**

VIA CERTIFIED MAIL # 7002 0460 0002 0055 6319

NAME & ADDRESS

CERTIFIED MAIL #

Turner Land & Cattle Co.
7221 Mission Road
Shawnee Mission, Kansas 66208

7002-0460-0002-0055-6227

Barney E. Green Jr.
P.O. Box 490
Hagerman, New Mexico 88232

7002-0460-0002-0055-6234

Maxine Green Hagest
P.O. Box 490
Hagerman, New Mexico 88232

7002-0460-0002-0055-6241

Conrad G. Keyes, Jr. and Tywill Jo Keyes,
Trustee of the Keyes Family Trust
801 Raleigh Road
Las Cruces, New Mexico 88005

7002-0460-0002-0055-6265

Barney Mays
2211 North Washington Street
Roswell, New Mexico 88201

7002-0460-0002-0055-6258

Max Clinton Tomlinson
2804 Glenn Ellen Drive
Flower Mound, Texas 75022

7002-0460-0002-0055-6272

Nancy Jo Pauley
9003 Bontura Road
Granbury, Texas 76049

7002-0460-0002-0055-6289

Ginger Lord
14107 Bluff Park Drive
San Antonio, Texas 78216

7002-0460-0002-0055-6296

Helen Gay Green Hirst
P.O. Box 490
Hagerman, New Mexico 88232

7002-0460-0002-0055-6302

AVE, Inc.
P.O. Box 114
Lewisville, Texas 75067

7002-0460-0002-0055-6319

First National Bank, Trustee of the
J. A. Fairey and Elizabeth W. Fairey
Trust, U/T/A dated 9-23-1981
P. O. Box AA
Artesia, NM 88211
Attn: Ms. Susan Holmes

7002-0460-0002-0055-6326

Ameristate Exploration, LLC
Box 34149
Austin, TX 78734
Attn: Mr. Mark Nearburg

7003-1680-0006-6276-9072

Dominion Oklahoma Texas Exploration &
Production, Inc.
14000 Quail Springs Pkwy. Suite 1600
Oklahoma City, OK 73134
Attn: Mr. Joe Hammond

7003-1680-0006-6277-3819

Boyd & McWilliams Energy Group
550 W. Texas #704
Midland, Texas 79701

7003-1680-0006-6277-3826

Devon Energy Production Company
Box 108838
Oklahoma City, OK 73101
Attn: Meg Muhlinghause

7003-1680-0006-6277-3833

Thomas Ray Sivley
7012 Saucon Valley Drive
Fort Worth, TX 76109

7003-1680-0006-6277-3840

Joann Sivley Ruppert Trust
U/T/A dated November 30, 1995
1947 Judd Hillside
Honolulu, Hawaii 96822

7003-1680-0006-6277-3857

Sharbro Oil Co. Ltd.
P. O. Box 840
Artesia, NM 88210

7002-0460-0002-0055-5817

Yates Petroleum Corporation
John A. Yates
John A. Yates, Trustee of
Trust Q U/W/O Peggy A.
Yates, Deceased
Frank W. Yates, Jr.
Shari Ann Yates Brewer
Scott Martin Yates
Darin Eugene Yates
105 S. 4th St.
Artesia, NM 88210
Attn: Mr. Chuck Moran

7002-0460-0002-0055-5824

Capstone Oil & Gas Company, LP
P. O. Box 10187
Midland, Texas 79702

7002-0460-0002-0055-6425

Margaret H. Muncy
801 Mann Ave.
Artesia, NM 88210

7002-0460-0002-0055-6418

Martin Bert Muncy, Jr.
8512 Sonoma Valley Dr., N.E.
Albuquerque, NM 87112

7002-0460-0002-0055-6401

Alan Nelson Muncy
P.O. Box 1037
Artesia, NM 88211-1037

7002-0460-0002-0055-6395

Maude Ada Parham
710 West McGaffey
Roswell, NM 88210

7002-0460-0002-0055-6388

Ruby Stella Ross
1408 James Street
Artesia, NM 88210

7002-0460-0002-0055-6371

Marie Elena Wesley
7717 64TH St. Ct. West
Tacoma, WA 98467

7002-0460-0002-0055-6364

Norman Earl Bowman
3619 Ceran Dr.
Arlington, TX 76016

7002-0460-0002-0055-6357

Carol Jean Hotze Bailey
535 Linda Vista, Rd.
Las Cruces, NM 88005

7002-0460-0002-0055-6340

Grace Ann Nancarrow
2298 Wrangler Ct.
Rio Rancho, NM 87124

7002-0460-0002-0055-6333

District I
1625 N. French Dr., Hobbs, NM 88240
District II
1301 W. Grand Avenue, Artesia, NM 88210
District III
1000 Rio Brazos Road, Aztec, NM 87410
District IV
1220 S. St. Francis Dr., Santa Fe, NM 87505

State of New Mexico
Energy Minerals and Natural Resources

Form C-101
Revised June 10, 2003

Oil Conservation Division
1220 South St. Francis Dr.
Santa Fe, NM 87505

Submit to appropriate District Office
State Lease - 6 Copies
Fee Lease - 5 Copies

AMENDED REPORT

APPLICATION FOR PERMIT TO DRILL, RE-ENTER, DEEPEN, PLUGBACK, OR ADD A ZONE

¹ Operator Name and Address Preston Exploration, LLC P. O. Box 7520 The Woodlands, TX 77387		² OGRID Number 212226
		³ API Number 30 -
³ Property Code	⁵ Property Name San Remo 32	⁶ Well No. 1

⁷ Surface Location

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
F	32	16 S	26 E		1980	North	2130	West	Eddy

⁸ Proposed Bottom Hole Location If Different From Surface

UL or lot no.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
⁹ Proposed Pool 1 Wildcat					¹⁰ Proposed Pool 2				

¹¹ Work Type Code N	¹² Well Type Code G	¹³ Cable/Rotary R	¹⁴ Lease Type Code S	¹⁵ Ground Level Elevation 3394'
¹⁶ Multiple No	¹⁷ Proposed Depth 8200	¹⁸ Formation Morrow/Atoka or Cisco/Canyon	¹⁹ Contractor Unknown	²⁰ Spud Date January 15, 2004

²¹ Proposed Casing and Cement Program

Hole Size	Casing Size	Casing weight/foot	Setting Depth	Sacks of Cement	Estimated TOC
17-1/2	13-3/8	48	420	400	Surface
12-1/4	9-5/8	36	1,450	450	Surface
8-1/2	5-1/2	17	8,200	400	4,100

²² Describe the proposed program. If this application is to DEEPEN or PLUG BACK, give the data on the present productive zone and proposed new productive zone. Describe the blowout prevention program, if any. Use additional sheets if necessary.

Drill, case and complete well in either the Morrow, Atoka, or Cisco/Canyon Formation

BOPs include: 1] Hydrill double ram 13-5/8" x 3000 psi

2] Double Ram 13-5/8" x 3000 psi

3] Choke Manifold 4" x 3000 psi

4] Five Station accumulator closing unit with remote control

H₂S equipment will be on location out from under surface.

²³ I hereby certify that the information given above is true and complete to the best of my knowledge and belief.

Signature: *Sandra Nobles*

Printed name: Sandra Nobles

Title: Consultant

E-mail Address: Sandra@rkford.com

Date: December 12, 2003

Phone: 432-682-0440

OIL CONSERVATION DIVISION

Approved by:

Title:

Approval Date:

Expiration Date:

Conditions of Approval:

Attached

DISTRICT I
P.O. Box 1980, Hobbs, NM 88241-1980

DISTRICT II
P.O. Drawer DD, Artesia, NM 88211-0719

DISTRICT III
1000 Rio Brazos Rd., Aztec, NM 87410

DISTRICT IV
P.O. BOX 2088, SANTA FE, N.M. 87504-2088

State of New Mexico
Energy, Minerals and Natural Resources Department

Form C-102
Revised February 10, 1994
Submit to Appropriate District Office
State Lease - 4 Copies
Fee Lease - 3 Copies

OIL CONSERVATION DIVISION
P.O. Box 2088
Santa Fe, New Mexico 87504-2088

AMENDED REPORT

WELL LOCATION AND ACREAGE DEDICATION PLAT

API Number	Pool Code	Pool Name
Property Code	Property Name SAN REMO 32	Well Number #1
OGRID No.	Operator Name PRESTON EXPLORATION, LLC	Elevation 3394

Surface Location

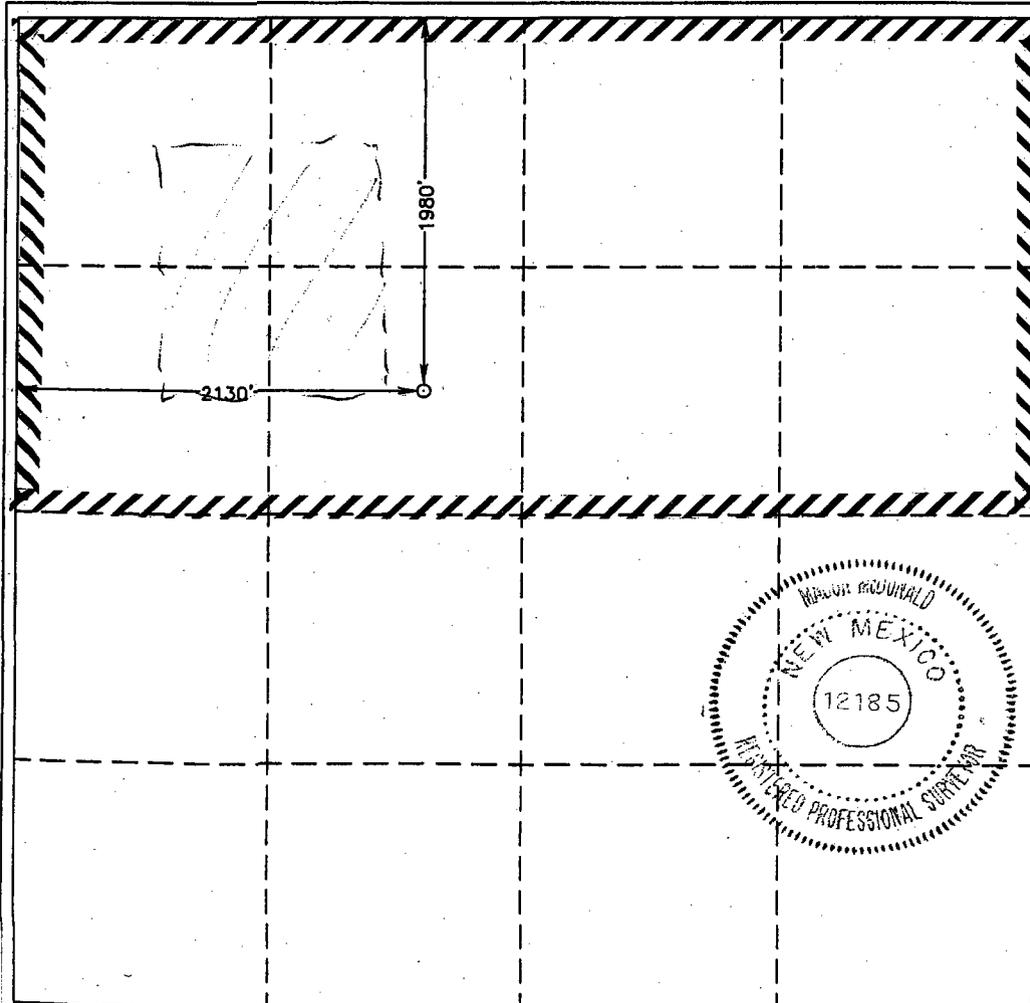
UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County
F	32	16 S	26 E		1980	NORTH	2130	WEST	EDDY

Bottom Hole Location If Different From Surface

UL or lot No.	Section	Township	Range	Lot Idn	Feet from the	North/South line	Feet from the	East/West line	County

Dedicated Acres	Joint or Infill	Consolidation Code	Order No.

NO ALLOWABLE WILL BE ASSIGNED TO THIS COMPLETION UNTIL ALL INTERESTS HAVE BEEN CONSOLIDATED OR A NON-STANDARD UNIT HAS BEEN APPROVED BY THE DIVISION



OPERATOR CERTIFICATION

I hereby certify the the information contained herein is true and complete to the best of my knowledge and belief.

Randell K. Power
Signature
Randell K. Power
Printed Name
Agent
Title
12-11-03
Date

SURVEYOR CERTIFICATION

I hereby certify that the well location shown on this plat was plotted from field notes of actual surveys made by me or under my supervision, and that the same is true and correct to the best of my belief.

December 4, 2003

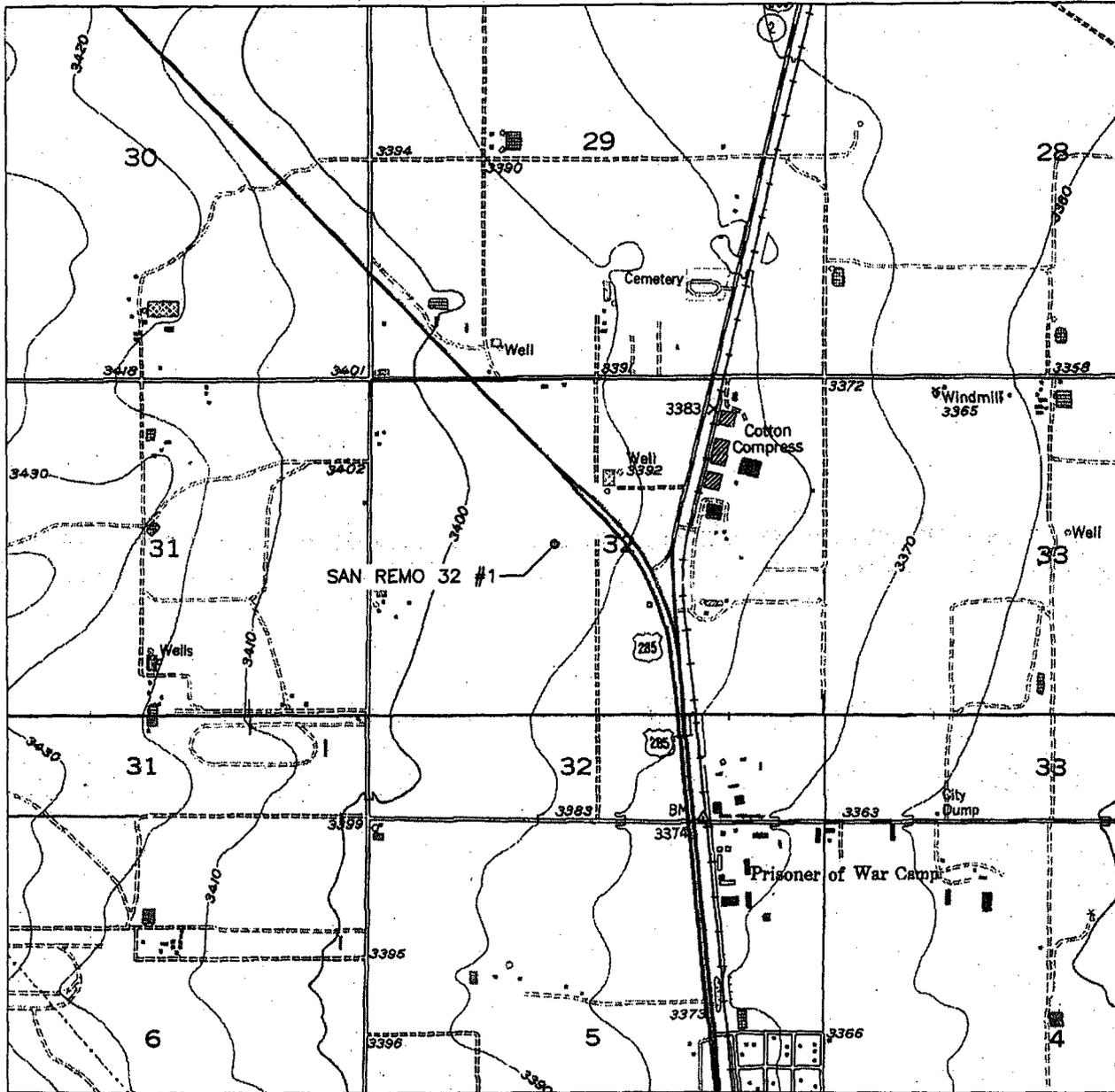
Date Surveyed JSR
Signature & Seal of Professional Surveyor

W.O. Num. 2003-0798

W.O. Num. 2003-0798
Certificate No. MACON McDONALD
N.M. P.L.S. No.



LOCATION VERIFICATION MAP



SCALE: 1" = 2000'

CONTOUR INTERVAL = 10'

SEC. 32 TWP. 16-S RGE. 26-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 1980' FNL & 2130' FWL

ELEVATION 3394

OPERATOR PRESTON EXPLORATION, LLC

LEASE SAN REMO 32 #1

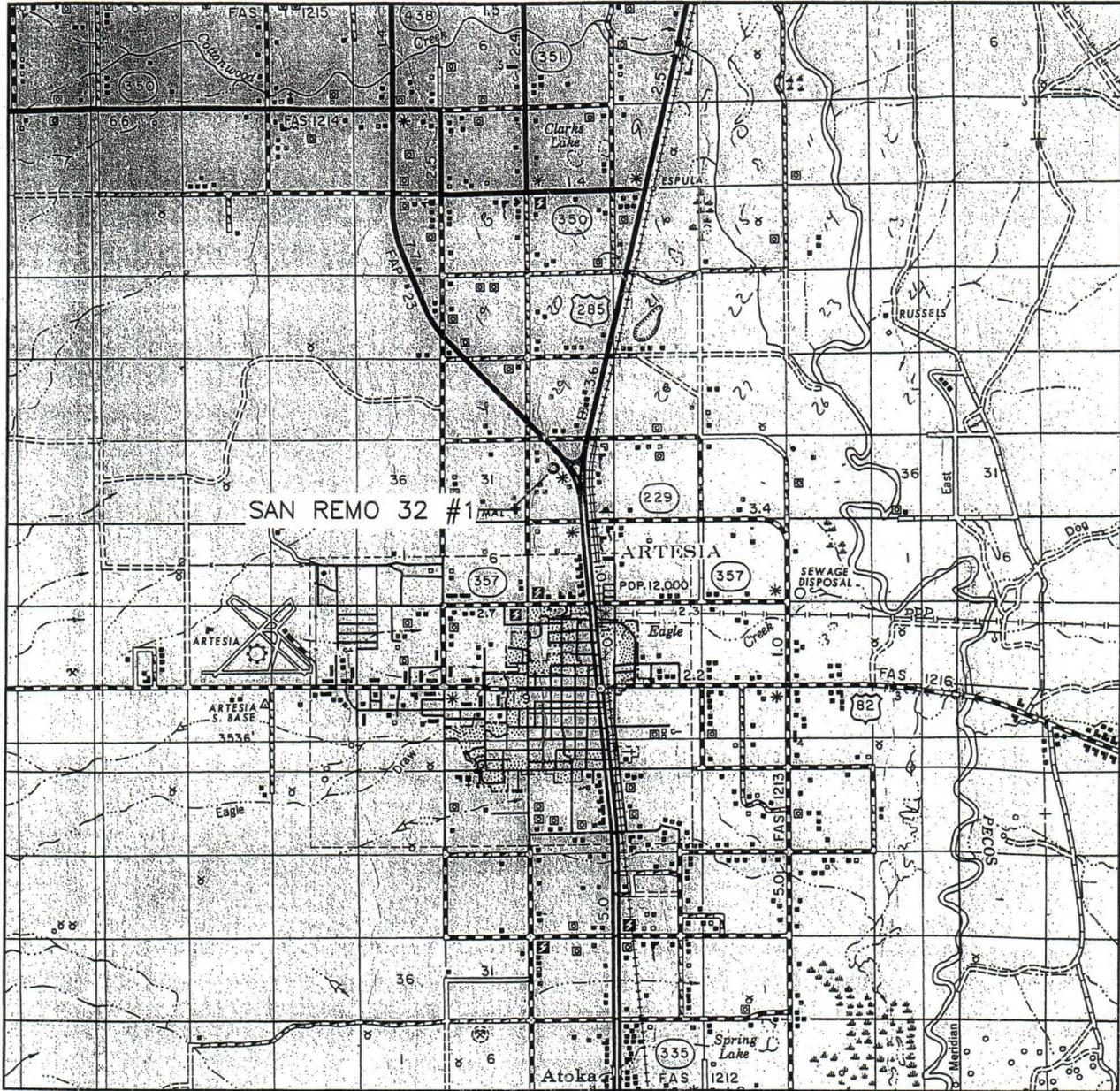
U.S.G.S. TOPOGRAPHIC MAP
ESPUELA, N.M.



WEST COMPANY
of Midland, Inc.

110 W. LOUISIANA, STE. 110
MIDLAND TEXAS, 79701
(432) 687-0865 - (432) 687-0868 FAX

VICINITY MAP



SCALE: 1" = 2 MILES

SEC. 32 TWP. 16-S RGE. 26-E

SURVEY N.M.P.M.

COUNTY EDDY

DESCRIPTION 1980' FNL & 2130' FWL

ELEVATION 3394

OPERATOR PRESTON EXPLORATION, LLC

LEASE SAN REMO 32 #1

WEST COMPANY
of Midland, Inc.

110 W. LOUISIANA, STE. 110
MIDLAND TEXAS, 79701
(432) 687-0865 - (432) 687-0868 FAX

PRESTON EXPLORATION, LLC.
DRIVING DIRECTIONS TO THE SAN REMO 32 #1
SECTION 32, TOWNSHIP-16-S, RANGE-26-E, N.M.P.M.
EDDY COUNTY, NEW MEXICO

Beginning at the intersection of Highway 285 and Lake Arthur Road.

Then travel North on said Highway 285 for 2/10 miles.

Location will be Southwest +/- 600 feet.

Cottonwood Volunteer Fire Department will be on the Northeast side of Highway 285.

County Eddy

Pool POW - Morrow Gas

TOWNSHIP 16 South

Range 26 East

NMPM

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

A red rectangle is drawn around section 32 in the grid.

Ext: $\frac{1}{2}$ Sec 32, $\frac{1}{2}$ Sec 33 (R-5511, 9-1-77)

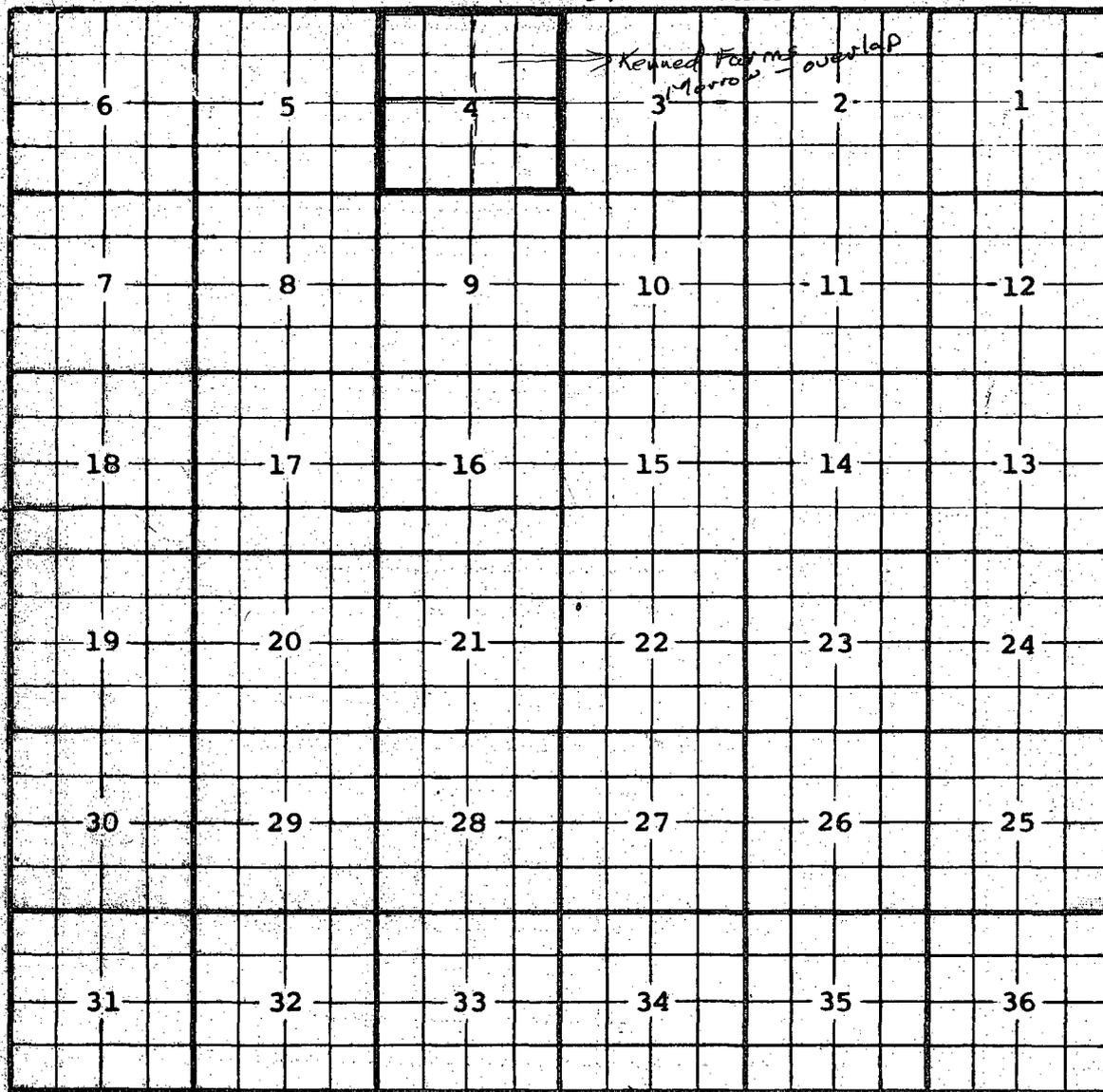
COUNTY *Eddy*

POOL *POW-Morrow Gas*

TOWNSHIP *17 South*

RANGE *26 East*

NMPM



Description: N¹/₂ Sec 4 (R-5361, 3-1-77)

Ext. S¹/₂ Sec. 4 (R-6838, 11-8-81)