



NSP-1871

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

May 4, 2004

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

Gallegos Law Firm
460 St. Michael's Drive – Building 300
Santa Fe, New Mexico 87505

Attention: J. E. Gallegos
Legal Counsel for Fulfer Oil and Cattle Co., LLC

**Re: *Division Administrative Order NSP-1871 (Administrative
Reinstatement of Division Order No. R-479)***

Dear Mr. Gallegos:

Reference is hereby made to your letter dated April 15, 2004 (see copy attached) requesting a copy of Division Administrative Order NSP-1871 and Division Order No. R-479 and an explanation of "how this case is an exception to the notice and opportunity for objection" rules. As requested and for reference, attached please find copies of: (i) Division Administrative Order NSP-1871, dated April 12, 2004; (ii) Division Order No. R-479, issued in Case No. 703 on May 27, 1954; (iii) Division Administrative Order NSP-1640 (L), dated December 10, 1991; (iv) Division Administrative Order NSP-1641 (L), dated December 10, 1991; (v) Division Order No. R-8519, issued in Case No. 9204 on October 1, 1987; and (vi) 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.

In reviewing Yarbrough Oil, L.P.'s administrative application (**administrative application reference No. pMES0-410348639**) filed with the Division's Santa Fe office on March 29, 2004, I, as my normal practice with applications from anyone within either the Jalmat (79240) or Eumont (76480) Gas Pools, also review the Division's records of the immediate area, which may include well files, production records, Administrative Orders, and Hearing Orders. My review of Jalmat development within Section 17, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico shows that:

- (1) the SE/4 SW/4, NE/4 SE/4, and S/2 SE/4 of Section 17, being a non-standard 160-acre Jalmat gas spacing unit approved by Division Order No. R-8519, issued in Case No. 9204 on October 1, 1987, is currently dedicated to Lewis B. Burleson, Inc.'s Hughes Federal Well No. 3 (API No. 30-025-25191), located at a standard Jalmat gas well location [pursuant to Rule 3 (A) (2) of the special rules governing the Jalmat Gas Pool] 660 feet from the South line and 2080 feet from the West line (Unit N) of Section 17;

Gallegos Law Firm

Attention: J. E. Gallegos, Legal Counsel for Fulfer Oil and Cattle Co., LLC

May 4

Page 2

- (2) the W/2 NW/4 of Section 17, being a non-standard 80-acre Jalmat gas spacing unit approved by Division Administrative Order NSP-1640 (L), dated December 10, 1991, is currently dedicated to Wildcat Energy, LLC's Hughes "B-4" Well No. 3, formerly the Hughes "B-4" Well No. 11 and Langlie-Mattix "B-4" Penrose Queen Unit Well No. 11 (API No. 30-025-21471), located at an unorthodox Jalmat gas well location [also approved by Division Administrative Order NSP-1640 (L)] 660 feet from the North line and 330 feet from the West line (Unit D) of Section 17; and
- (3) the E/2 NW/4 of Section 17, being a non-standard 80-acre Jalmat gas spacing unit approved by Division Administrative Order NSP-1641 (L), dated December 10, 1991, is currently dedicated to Wildcat Energy, LLC's Hughes "B-4" Well No. 8, formerly the Langlie-Mattix "B-4" Penrose Queen Unit Well No. 8 (API No. 30-025-10771), located at an unorthodox Jalmat gas well location [also approved by Division Administrative Order NSP-1641 (L)] 1980 feet from the North line and 1800 feet from the West line (Unit F) of Section 17.

Referring to the special rules governing the Jalmat Gas Pool:

(A) Rule 4 (C) (1) states "[t]he Director may **establish** non-standard gas spacing units in the Jalmat Gas Pool." Division Order No R-479, issued in Case No. 703 on May 27, 1954, had **established** the unit in question comprising the SE/4 SW/4, NE/4 SE/4, and S/2 SE/4 of Section 17.

(B) Rule 6 (B) states "[a]ll existing exceptions, weather granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice." Order No. R-479 was issued prior to Division Order No. R-8170-P, which became effective on December 14, 2001.

(C) Yarbrough Oil, LP's replacement well [its existing E. L. Steeler Well No. 4 (API No. 30-025-10786) located 860 feet from the South line and 660 feet from the West line (Unit M) of Section 17] for this unit's original well [the old Skelly Oil Company E. L. Steeler Well No. 7 (API No; 30-025-10789) located 1980 feet from the South line and 660 feet from the West line (Unit L) of Section 17] is located at a standard Jalmat gas well location [see special Rule 3 (A) (2)].

(D) There is only one well within the subject unit; therefore, the well density provisions for the Jalmat Gas Pool were met [see special Rule 3 (C)].

Gallegos Law Firm

Attention: J. E. Gallegos, Legal Counsel for Fulfer Oil and Cattle Co., LLC

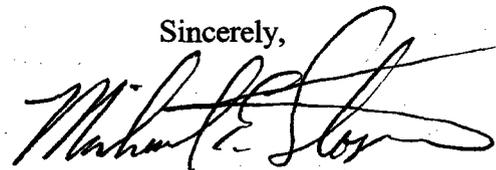
May 4

Page 3

Considering these facts, I found no provisions in Rule 4 ("*Administrative Exceptions*") of the Jalmat special pool rules that applied in this case; I therefore authorized the issuance of Administrative Order NSP-1871 as an administrative reinstatement of Division Order No. R-479. Issuing an administrative order in this instance served to insure that a computer record would exist for this transaction or reinstatement. Where a letter of authorization, I felt, would probably have been lost in the Division's records and/or RDBMS electronic records and imaging system.

Should you have any questions or comments concerning this matter, please contact me in Santa Fe at (505) 476-3465. Thank you.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Hobbs
Yarbrough Oil, LP (c/o Oil Reports & Gas Services, Inc.) - Hobbs
Mr. Eddy W. Seay - Hobbs
Ms. Joanna Prukop, EMNRD Cabinet Secretary/Interim OCD Director - Santa Fe
Ms. Carol Leach, EMNRD General Counsel - Santa Fe
Ms. Gail MacQuesten, Assistant General Counsel - Santa Fe
File: Division Case No. 703
Division Administrative Order NSP-1871

GALLEGOS LAW FIRM

A Professional Corporation

460 St. Michael's Drive
Building 300
Santa Fe, New Mexico 87505
Telephone No. 505-983-6686
Telefax No. 505-986-1367
Telefax No. 505-986-0741
E-Mail glf460@spinn.net

RECEIVED
APR 15 2004
OIL CONSERVATION
DIVISION

April 15, 2004
(Our File No. 04-359.00)

CONFIRMATION COPY
OF FACSIMILE

J.E. GALLEGOS **

VIA TELECOPY

Michael E. Stogner
Hearing Officer
New Mexico Oil Conservation Division
P.O. Box 6429
Santa Fe, New Mexico 87504

Re: Administrative Order NSP-1871 (Administrative Reinstatement of Order No. R-479)

Dear Mr. Stogner

We represent Fulfer Oil and Cattle Co., LLC who is the owner and operator of Jalmat Gas Pool production in the North ½ of Section 20, Township 23 S, Range 37 E, Lea County. I am inquiring concerning the issuance of the referenced order. Our client was not given notice of the Administrative Application filed by Yarborough Oil Company LP on March 24, 2004.

Since the non-standard 160 acre proration unit does not lie wholly within a single governmental quarter section and well density for the subject pool is 160 acres it appears to me that Rule 104D. (2)(c) applies and that notification of the application should have been sent to affected parties, including our client. The Administrative Order references Order No. R-479, which is not found in the well file at the Division. The order number would indicate that it was entered based on notice and public hearing.

It would be much appreciated if you would provide a copy of the order being "reinstated" and an explanation of how this case is an exception to the notice and opportunity for objection requirement of the Division rules. Recognizing that jurisdiction of the matter is retained by the Division we wanted Yarborough by copy hereof to be aware that a motion for reconsideration of the order may be necessary. Thank you for your consideration.

Sincerely,

GALLEGOS LAW FIRM, P.C.

By


J.E. GALLEGOS

JEG:sg

fxc: Gregg Fulfer
Gaye Heard (via e-mail gheard@oilreportsinc.com)
Yarborough Oil, L.P.
Chris Williams

*Admitted in N.M. & Colo.

**New Mexico Board of Legal Specialization
Recognized Specialist in the area of
Natural Resources-Oil and Gas Law

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 12563
ORDER NO. R-8170-P**

**APPLICATION OF THE NEW MEXICO OIL CONSERVATION DIVISION FOR
TERMINATION OF GAS PRORATIONING IN THE JALMAT AND EUMONT
GAS POOLS AND TO AMEND THE SPECIAL RULES GOVERNING BOTH
POOLS, LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 12, and September 6, 2001, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 14th day of December, 2001, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

(1) Due notice has been given, and the Division has jurisdiction of this case and its subject matter.

(2) The Jalmat Gas Pool and the Eumont Gas Pool are currently classified by the Division as "prorated" gas pools and are subject to the following special rules and procedures:

- (a) the "*Special Rules and Regulations for the Jalmat Gas Pool*" and the "*Special Rules and Regulations for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170, as amended;
- (b) the general rules for gas proration as contained in Division Rules 601 through 605;
- (c) Division Rule 104.F., revised by Division Order No. R-11231, issued by the New Mexico Oil

Conservation Commission in Case No. 12119 on
August 12, 1999; and

(d) Rule 1207.A.(2).

(3) The New Mexico Oil Conservation Division ("Division") seeks to terminate gas prorationing in the Jalmat and Eumont Gas Pools, thereby excluding both pools from the provisions of Division Rules No. 601 through 605. The Division further seeks to amend the special rules and regulations for the Jalmat and Eumont Gas Pools by whatever means necessary to prevent waste, maintain orderly development, and protect correlative rights.

(4) Doyle Hartman, Oil Operator ("Hartman"), Raptor Resources, Inc. ("Raptor"), BP Amoco ("BP Amoco"), and Chevron USA Inc. ("Chevron"), all operators within the Jalmat and/or Eumont Gas Pools, appeared at the hearing.

(5) The Eumont Gas Pool currently comprises all or portions of Township 18 South, Ranges 36 and 37 East, Township 19 South, Ranges 36 and 37 East, Township 20 South, Ranges 35 through 38 East, Township 21 South, Ranges 35 through 37 East, and Township 22 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico.

(6) The Jalmat Gas Pool currently comprises all or portions of Township 21 South, Ranges 35 and 36 East, Township 22 South, Ranges 35 through 37 East, Township 23 South, Ranges 35 through 37 East, Township 24 South, Ranges 36 and 37 East, Township 25 South, Ranges 36 and 37 East, and Township 26 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico.

(7) The "*Special Rules and Regulations for the Jalmat Gas Pool*" currently provide that:

- (a) the vertical limits of the pool extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation; however, in an area that encompasses portions of Township 24 South, Ranges 36 and 37 East, the vertical limits of the pool extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation;

- (b) a gas well shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil. An oil well shall be a well producing from the vertical limits of the pool with a gas-liquid ratio less than or equal to 100,000 cubic feet of gas per barrel of oil;
- (c) the limiting gas-oil ratio for oil wells in the Jalmat Gas Pool is 10,000 cubic feet of gas per barrel of oil;
- (d) a standard gas proration unit shall be 640 acres;
- (e) a standard oil proration unit shall be 40 acres;
- (f) a gas well to which 640 acres is dedicated shall be located no closer than 1650 feet to the outer boundary of the section and no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary;
- (g) an oil well shall be located no closer than 330 feet to the outer boundary of the proration unit;
- (h) for a non-standard gas proration unit, the location of the well with respect to the two nearest boundary lines of the unit shall govern the maximum amount of acreage that may be assigned to the well for the purposes of gas proration as follows:

<u>Location</u>	<u>Maximum Acreage</u>
660-660	160 acres
660-990	320 acres
990-990	600 acres

- (i) acreage dedicated to a gas well shall not be simultaneously dedicated to an oil well, and the dual completion of a well so as to produce oil from

the Yates formation and oil from the Seven Rivers or Queen formation is prohibited; and

- (j) for gas proration purposes, a 640-acre gas proration unit shall be assigned an Acreage Factor of 4.0, a 160-acre proration unit shall be assigned an Acreage Factor of 1.0, etc.

(8) The "*Special Rules and Regulations for the Eumont Gas Pool*" are the same as the "*Special Rules and Regulations for the Jalmat Gas Pool*," with the exception of the following:

- (a) the vertical limits of the Eumont Gas Pool extend from the top of the Yates formation to the base of the Queen formation, thereby including all of the Yates, Seven Rivers and Queen formations; and
- (b) the pool rules for the Eumont Gas Pool do not contain a provision prohibiting the simultaneous dedication of acreage to an oil well and a gas well.

(9) A minimum gas allowable of 600 MCF of gas per day (18,300 MCF/month) per Acreage Factor of 1.0 was established for the Eumont and Jalmat Gas Pools by Division Order No. R-8170-G dated November 8, 1990, and by Division Order No. R-8170-J dated January 8, 1991, respectively.

(10) In September, 2000, the Division hired a contractor to perform an analysis of the gas proration system in New Mexico's prorated gas pools, and in particular, the Eumont and Jalmat Gas Pools.

(11) On November 8, 2000, the contractor, Mr. Jim Morrow, presented the results of his study to the New Mexico Oil Conservation Commission.

(12) The Division presented Mr. Morrow's report titled "Analysis of Proration System, Southeast New Mexico" as evidence in this case. In addition, Mr. Morrow testified at the hearing by telephone.

(13) With respect to the Eumont Gas Pool, the results of Mr. Morrow's study demonstrate that:

- (a) in October, 1992, the non-marginal monthly gas allowable for the Eumont Gas Pool was increased to

24,730 MCF per Acreage Factor of 1.0. In April, 1993, this allowable was increased to 28,928 MCF, and in April, 1995, this allowable was increased to 38,000 MCF. The non-marginal monthly gas allowable of 38,000 MCF per Acreage Factor of 1.0 remains in place at the current time;

- (b) in March, 2000, 555 wells were producing from the Eumont Gas Pool at an average monthly producing rate of 3,054 MCF per month per well;
- (c) production data was analyzed for the period commencing January, 1997 and ending March, 2000. At some time during this production period, six gas proration units ("GPU's") produced in excess of their gas allowable for one or more months; however, all overproduction accrued by these six GPU's was made up by the end of 1999;
- (d) very few, if any, of the GPU's in the Eumont Gas Pool are currently capable of producing at or near the current gas allowable; and
- (e) no production in excess of the gas allowable was reported by any GPU in January, February or March, 2000.

(14) With respect to the Jalmat Gas Pool, the results of Mr. Morrow's study demonstrate that:

- (a) the current non-marginal monthly gas allowable for the Jalmat Gas Pool is 18,300 MCF per Acreage Factor of 1.0;
- (b) in March, 2000, 495 wells were producing from the Jalmat Gas Pool at an average monthly producing rate of 1,117 MCF per month per well;
- (c) production data was analyzed for the period commencing January, 1997 and ending June, 2000. At some time during this production period, five GPU's produced in excess of their gas allowable for

one or more months; however, all overproduction accrued by these five GPU's was made up by November, 1999; and

- (d) very few, if any, of the GPU's in the Jalmat Gas Pool are currently capable of producing at or near the current gas allowable.

(15) Mr. Morrow's report further shows that of the eleven GPU's that overproduced in the Eumont and Jalmat Gas Pools during the period of production analysis, none would have been required to be shut-in pursuant to the provisions of Division Rule 605.E.(3), and none was ever six times overproduced, or overproduced at the end of two consecutive proration periods.

(16) The evidence presented further demonstrates that gas production from the Eumont and Jalmat Gas Pools has declined significantly over the past several years, and will continue to decline in the future.

(17) A reduction in the minimum gas allowable for the Eumont and Jalmat Gas Pools, thereby increasing the effectiveness of gas proration, would tend to discourage further drilling and workover activity in the pools, thereby reducing the ultimate recovery of gas from the Yates, Seven Rivers and Queen formations.

(18) At the conclusion of the hearing on July 12, 2001, the Examiner directed the Division to provide notice to all operators of wells within the Eumont and Jalmat Gas Pools of its proposal to: (i) terminate gas prorationing in the Eumont and Jalmat Gas Pools; and (ii) amend the special pool rules for the Eumont and Jalmat Gas Pools. This notice was sent to these operators on or about July 18, 2001.

(19) No operator appeared at the July 12 or September 6 hearing to oppose the Division's proposal to terminate gas prorationing and to amend the special pool rules for the Eumont and Jalmat Gas Pools. In addition, no operator submitted written correspondence or comments to the Division in opposition to the application.

(20) The evidence presented in this case demonstrates that gas prorationing currently serves no purpose in the Eumont and Jalmat Gas Pools.

(21) Gas prorationing in the Eumont and Jalmat Gas Pools should be terminated.

(22) The evidence presented further demonstrates that:

- (a) development of the Eumont and Jalmat Gas Pools commenced in the 1950's;
- (b) development within these pools has occurred over the years in a somewhat unconventional manner due to certain factors including, but not limited to: (i) the geology and drainage characteristics of the Yates, Seven Rivers and Queen formations; (ii) 640-acre gas spacing; and (iii) the pools being subject to gas proration;
- (c) within the Eumont and Jalmat Gas Pools, there are a considerable number of non-standard gas proration units that have been routinely approved by the Division over the years. These non-standard gas proration units vary in size and shape from 40 acres to 640 acres; and
- (d) within the Eumont and Jalmat Gas Pools, there are a considerable number of wells that have been drilled at non-standard locations.

(23) With termination of gas prorationing within the Eumont and Jalmat Gas Pools, it becomes necessary to amend the special pool rules in order to maintain orderly development, prevent waste, and protect correlative rights.

(24) The Division has proposed that the "*Special Rules and Regulations for the Jalmat Gas Pool,*" and the "*Special Rules and Regulations for the Eumont Gas Pool,*" be amended to contain provisions whereby:

- (a) a gas well shall be located no closer than: (i) 660 feet to any outer boundary of its assigned gas spacing unit; (ii) 660 feet to any governmental quarter section line; and (iii) 330 feet to any governmental quarter-quarter section line or subdivision inner boundary;
- (b) no more than one well shall be permitted on a standard 40-acre, more or less, oil proration unit;

- (c) no more than one well shall be permitted per 160 acres within existing gas spacing and proration units, either standard or otherwise;
- (d) exceptions may be granted to the requirements of (a), (b) and (c); and
- (e) in no event shall any standard or non-standard gas spacing and prorating unit in the Eumont and Jalmat Gas Pools be allowed more than one well per quarter-quarter section.

(25) Hartman presented evidence and testimony at the hearing generally in agreement with the proposed rule amendments set forth by the Division. Hartman presented written comments and recommendations regarding the proposed rule amendments.

(26) BP Amoco and Raptor, which also expressed general agreement with the proposed rule amendments set forth by the Division, submitted written comments and recommendations regarding the proposed rule amendments.

(27) No other operator presented written comments or correspondence in this case.

(28) Due consideration has been given to the evidence presented in this case, including written comments and recommendations by Hartman, BP Amoco and Raptor in the development of special pool rules for the Eumont and Jalmat Gas Pools.

(29) Approval of amended rules for the Eumont and Jalmat Gas Pools will promote orderly development within the pools, prevent waste and protect correlative rights.

(30) Amended pool rules for the Eumont and Jalmat Gas Pools should be established, and the "*Special Rules and Regulations for the Eumont Gas Pool*," and the "*Special Rules and Regulations for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170, as amended, should be superseded by the special pool rules set forth by this order.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of the Oil Conservation Division, gas prorationing in the Eumont Gas Pool, encompassing all or portions of Township 18 South, Ranges 36 and 37 East, Township 19 South, Ranges 36 and 37 East, Township 20 South, Ranges 35 through 38 East, Township 21 South, Ranges 35 through 37 East, and Township 22 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico, is hereby terminated.

(2) Pursuant to the application of the Oil Conservation Division, gas prorationing in the Jalmat Gas Pool, encompassing all or portions of Township 21 South, Ranges 35 and 36 East, Township 22 South, Ranges 35 through 37 East, Township 23 South, Ranges 35 through 37 East, Township 24 South, Ranges 36 and 37 East, Township 25 South, Ranges 36 and 37 East, and Township 26 South, Ranges 36 and 37 East, NMPM, Lea County, New Mexico, is hereby terminated.

(3) The "*Special Rules and Regulations for the Eumont Gas Pool*," and the "*Special Rules and Regulations for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170, as amended, are hereby superseded by the special pool rules for the Eumont and Jalmat Gas Pools hereinafter set forth.

(4) "*Special Pool Rules for the Eumont Gas Pool*" and "*Special Pool Rules for the Jalmat Gas Pool*" are hereby established as follows:

SPECIAL POOL RULES
FOR THE EUMONT GAS POOL

RULE 1. DEFINITIONS:

THE VERTICAL LIMITS of the Eumont Gas Pool shall extend from the top of the Yates formation to the base of the Queen formation, thereby including all of the Yates, Seven Rivers, and Queen formations.

A GAS WELL in the Eumont Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

AN OIL WELL in the Eumont Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Eumont Gas Pool shall be 10,000 cubic feet of gas per barrel of oil.

RULE 2. ACREAGE ASSIGNMENT:

(A) A standard gas spacing unit in the Eumont Gas Pool shall be 640 acres, more or less, and shall comprise a single governmental section.

(B) A standard oil spacing and proration unit in the Eumont Gas Pool shall be 40 acres, more or less, and shall comprise a single governmental quarter-quarter section or lot.

(C) Acreage dedicated to a gas well in the Eumont Gas Pool shall not be simultaneously dedicated to an oil well in the Eumont Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

RULE 3. WELL DENSITY AND LOCATION:

(A) **Well Location:**

(1) An oil well in the Eumont Gas Pool shall be located no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(2) A gas well in the Eumont Gas Pool shall be located no closer than:
(a) 660 feet to any outer boundary of its assigned gas spacing unit; (b) 660 feet to any governmental quarter section line; and (c) 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(B) For any 40-acre, more or less, oil spacing and proration unit within the Eumont Gas Pool, no more than one well shall be allowed. ~~Only those 40-acre oil spacing and proration units committed to active secondary recovery projects shall be permitted more than one well.~~ Otherwise, an exception to this rule will require a hearing.

(C) For any gas spacing unit, either standard or otherwise, the number of wells allowed shall be limited to no more than one well per 160 acres. For either a standard or non-standard 640-acre unit, a maximum of four wells shall be allowed, provided that no more than one well shall be allowed to occupy any one of the four quarter sections. For a non-standard 480, 320 or 160-acre unit, a maximum of three wells, two wells, or one

well, respectively, shall be allowed, provided that no more than one well shall be allowed to occupy each quarter section that comprises the unit.

(D) In no event shall any Eumont gas spacing unit be allowed more than one well per quarter-quarter section.

RULE 4. ADMINISTRATIVE EXCEPTIONS:

(A) The Division Director may grant an administrative exception to the well location requirements of Rule 3(A) above, without hearing, when the exception is necessary to prevent waste or protect correlative rights, so long as:

(1) an application has been duly filed under the provisions of Division Rule 104.F; and

(2) the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the gas spacing unit in which the well is located and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(B) The Division Director may grant an administrative exception to the gas well density provisions of Rule 3(C) above, or may administratively approve the formation of a non-standard gas spacing unit that will result in a well density of more than one well per 160 acres, so long as the operator presents sufficient engineering, geologic, reservoir drainage and other applicable evidence that demonstrates:

(1) the proposed well is necessary (a) to effectively and efficiently drain a 160-acre quarter section that cannot be adequately drained by the existing well or wells, or (b) to adequately protect the subject unit from offsetting drainage, or (c) to prevent waste by utilizing an existing or previously abandoned wellbore, or (d) to recover additional reserves that would otherwise not be recovered from the reservoir;

(2) the proposed well will not violate correlative rights; and

(3) the applicant has obtained consent of or given notice to all operators of any unit or units adjacent to the gas spacing unit requiring the well density exception and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(C) **Non-Standard Gas Spacing Units:**

(1) The Director may establish non-standard gas spacing units in the Eumont Gas Pool as follows:

(a) **Units that comprise complete quarter sections:**

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a single 160-acre, more or less, non-standard spacing unit comprising a single quarter section, or a 320-acre, 480-acre, or 640-acre, more or less, non-standard gas spacing unit that consists of two, three, or four complete quarter sections that share a common bordering side, without a hearing, so long as the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4 (D).

(b) **Units that involve partial quarter sections regardless of size (up to 640 acres):**

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a non-standard gas spacing unit containing legal subdivisions smaller than a quarter section [quarter-quarter section(s) or lots] without a hearing provided that:

(i) the non-standard spacing unit consists of quarter-quarter sections or lots that share a common bordering side; and

(ii) the applicant presents proof of consent of or notice to all offset operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(2) Applications for non-standard gas spacing units shall include:

(a) a detailed explanation of the necessity for requesting the proposed non-standard gas spacing unit;

(b) a land plat that identifies the non-standard gas spacing unit being sought and identifies all existing Eumont gas wells contained within the acreage;

(c) information concerning any old well within the proposed unit that once had Eumont production, either oil or gas (well name and number, operator, last acreage dedication, plugging date and cumulative oil and gas production, and any applicable Division order granting an exception to any Eumont rule);

(d) a land plat that clearly shows all existing Eumont oil and gas spacing units that directly offset the proposed non-standard unit and, if available, reference to all orders approving such non-standard gas spacing units;

(e) for a non-standard Eumont gas spacing unit that contains partial quarter sections, a land plat must be submitted that clearly depicts the acreage and mineral interests that will be excluded from the unit within the quarter section and that are not committed to any other Eumont gas or oil spacing unit; the plat shall identify the owners of such mineral interests by name, address (if known) and percentage;

(f) geological and technical information required by Rule 4(B), if applicable; and

(g) proof of compliance with applicable consent or notice provisions of Rule 4.

(D) With reference to any exception that may be granted administratively without hearing as provided by any provision of this Rule 4:

(1) any required proof of consent shall be evidenced by written waivers setting forth the substance of the exception sought and expressly consenting thereto, and signed by the person whose consent is required by the applicable provision of this Rule;

(2) any required notice shall be given in the manner provided in Rule 1207 (B), except that in lieu of stating the time and place of hearing, such notice shall state that the exception sought may be granted without hearing unless a protest is filed with the Santa Fe office of the Division within

twenty (20) days after the filing of the application and proof of notice with the Division. An affidavit shall be filed with the application setting forth the information required by Rule 1207 (C) with respect to any persons required to be notified by the applicable provision of this Rule from whom written waivers are not furnished;

(3) if an application is supported by written waivers as provided in Rule 4(D) (1) from all persons whose consent is required and an affidavit attesting that the persons whose waivers are attached are all of the persons whose consent is required, the Director may grant the application without further notice or hearing; and

(4) if an application is supported by proof of notice as provided in Rule 4(D) (2), the Director may grant the application without hearing if no protest is filed with the Division within twenty (20) days after the date of filing of the application and proof of notice.

(E) The Division Director may set for hearing any application that was filed for administrative approval. If a protest is filed as to any such application as provided in Rule 4(D), such application shall be denied or set for hearing, in the discretion of the Director.

RULE 5. WELL TESTING:

(A) **Gas-liquid ratio tests:** The operator of each newly completed well shall conduct a gas-liquid ratio test on the well upon recovery of all load oil from the well, provided however, that in no event shall the test be commenced later than 30 days from the date of first production. Semi-annual gas-liquid ratio tests shall be conducted on all wells during each year in accordance with a test schedule prepared by the Hobbs district office of the Division. The initial gas-liquid ratio test shall suffice as the first semi-annual test. Any well that is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. Gas-liquid ratio tests shall be conducted for 24 hours, being the final 24 hours of a 72-hour period during which the well shall be produced at a constant normal rate of production. Results of each test shall be filed on Division Form C-116 on or before the tenth day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the Hobbs district office of the Division a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the test schedule shall also be furnished to all offset operators. The supervisor of the Hobbs district office may grant an exception to the above well-test requirements where it is demonstrated that the well produces no liquids. Special gas-liquid ratio tests shall also be conducted at the request of the Division and may also be conducted at the option of the operator. Such special

gas-liquid ratio tests shall be conducted in accordance with the procedures outlined hereinabove, including notification to the Division and offset operators.

(B) An initial shut-in pressure test shall be conducted on each gas well and shall be reported to the Division on Form C-125.

RULE 6. MISCELLANEOUS:

(A) Oil wells in the Eumont Gas Pool shall receive oil and casinghead gas allowables as provided in Division Rules 503, 505, and 506.

(B) All existing exceptions, whether granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice.

**SPECIAL POOL RULES
FOR THE JALMAT GAS POOL**

RULE 1. DEFINITIONS:

THE VERTICAL LIMITS of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 100 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation, except as provided below.

In the area described immediately below, the vertical limits of the Jalmat Gas Pool shall extend from the top of the Tansill formation to a point 250 feet above the base of the Seven Rivers formation, thereby including all of the Yates formation:

TOWNSHIP 24 SOUTH, RANGE 36 EAST, NMPM

Section 13:	SE/4 NE/4, SE/4
Section 23:	E/2 E/2
Section 24:	All
Section 25:	N/2
Section 26:	E/2 NE/4

TOWNSHIP 24 SOUTH, RANGE 37 EAST, NMPM

Section 18:	SW/4 NW/4, W/2 SW/4
Section 19:	W/2
Section 30:	NW/4

A GAS WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool with a gas-liquid ratio in excess of 100,000 cubic feet of gas per barrel of oil.

AN OIL WELL in the Jalmat Gas Pool shall be a well producing from the vertical limits of the pool and not classified as a gas well as defined above.

THE LIMITING GAS-OIL RATIO for oil wells in the Jalmat Gas Pool shall be 10,000 cubic feet of gas per barrel of oil.

RULE 2. ACREAGE ASSIGNMENT:

(A) A standard gas spacing unit in the Jalmat Gas Pool shall be 640 acres, more or less, and shall comprise a single governmental section.

(B) A standard oil spacing and proration unit in the Jalmat Gas Pool shall be 40 acres, more or less, and shall comprise a single governmental quarter-quarter section or lot.

(C) Acreage dedicated to a gas well in the Jalmat Gas Pool shall not be simultaneously dedicated to an oil well in the Jalmat Gas Pool, and the dual completion of a well so as to produce oil from the Yates formation and oil from the Seven Rivers or Queen formation is prohibited.

RULE 3. WELL DENSITY AND LOCATION:

(A) **Well Location:**

(1) An oil well in the Jalmat Gas Pool shall be located no closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(2) A gas well in the Jalmat Gas Pool shall be located no closer than:
(a) 660 feet to any outer boundary of its assigned gas spacing unit; (b) 660 feet to any governmental quarter section line; and (c) 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(B) For any 40-acre, more or less, oil spacing and proration unit within the Jalmat Gas Pool, no more than one well shall be allowed. Only those 40-acre oil spacing and proration units committed to active secondary recovery projects shall be permitted more than one well. Otherwise, an exception to this rule will require a hearing.

(C) For any gas spacing unit, either standard or otherwise, the number of wells allowed shall be limited to no more than one well per 160 acres. For either a standard or non-standard 640-acre unit, a maximum of four wells shall be allowed, provided that no more than one well shall be allowed to occupy any one of the four quarter sections. For a non-standard 480, 320 or 160-acre unit, a maximum of three wells, two wells, or one well, respectively, shall be allowed, provided that no more than one well shall be allowed to occupy each quarter section that comprises the unit.

(D) In no event shall any Jalmat gas spacing unit be allowed more than one well per quarter-quarter section.

RULE 4. ADMINISTRATIVE EXCEPTIONS:

(A) The Division Director may grant an administrative exception to the well location requirements of Rule 3(A) above, without hearing, when the exception is necessary to prevent waste or protect correlative rights, so long as:

(1) an application has been duly filed under the provisions of Division Rule 104.F; and

(2) the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the gas spacing unit in which the well is located and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(B) The Division Director may grant an administrative exception to the gas well density provisions of Rule 3(C) above, or may administratively approve the formation of a non-standard gas spacing unit that will result in a well density of more than one well per 160 acres, so long as the operator presents sufficient engineering, geologic, reservoir drainage and other applicable evidence that demonstrates:

(1) the proposed well is necessary (a) to effectively and efficiently drain a 160-acre quarter section that cannot be adequately drained by the existing well or wells, or (b) to adequately protect the subject unit from offsetting drainage, or (c) to prevent waste by utilizing an existing or previously abandoned wellbore, or (d) to recover additional reserves that would otherwise not be recovered from the reservoir;

(2) the proposed well will not violate correlative rights; and

(3) the applicant has obtained consent of or given notice to all operators of any unit or units adjacent to the gas spacing unit requiring the well density exception and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

(C) **Non-Standard Gas Spacing Units:**

(1) The Director may establish non-standard gas spacing units in the Jalmat Gas Pool as follows:

(a) **Units that comprise complete quarter sections:**

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a single 160-acre, more or less, non-standard spacing unit comprising a single quarter section, or a 320-acre, 480-acre, or 640-acre, more or less, non-standard gas spacing unit that consists of two, three, or four complete quarter sections that share a common bordering side, without a hearing, so long as the applicant presents proof of consent of or notice to all operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4 (D).

(b) **Units that involve partial quarter sections regardless of size (up to 640 acres):**

The Director may administratively grant an exception to the requirements of Rule 2(A) above to establish a non-standard gas spacing unit containing legal subdivisions smaller than a quarter section [quarter-quarter section(s) or lots] without a hearing provided that:

(i) the non-standard spacing unit consists of quarter-quarter sections or lots that share a common bordering side; and

(ii) the applicant presents proof of consent of or notice to all offset operators of any unit or units adjacent to the proposed non-standard spacing unit and, for any adjacent unit or units where there is no operator, all lessees or unleased mineral interest owners, in the form and manner prescribed by Rule 4(D).

- (2) Applications for non-standard gas spacing units shall include:
- (a) a detailed explanation of the necessity for requesting the proposed non-standard gas spacing unit;
 - (b) a land plat that identifies the non-standard gas spacing unit being sought and identifies all existing Jalmat gas wells contained within the acreage;
 - (c) information concerning any old well within the proposed unit that once had Jalmat production, either oil or gas (well name and number, operator, last acreage dedication, plugging date and cumulative oil and gas production, and any applicable Division order granting an exception to any Jalmat rule);
 - (d) a land plat that clearly shows all existing Jalmat oil and gas spacing units that directly offset the proposed non-standard unit and, if available, reference to all orders approving such non-standard gas spacing units;
 - (e) for a non-standard Jalmat gas spacing unit that contains partial quarter sections, a land plat must be submitted that clearly depicts the acreage and mineral interests that will be excluded from the unit within the quarter section and that are not committed to any other Jalmat gas or oil spacing unit; the plat shall identify the owners of such mineral interests by name, address (if known) and percentage;
 - (f) geological and technical information required by Rule 4(B), if applicable; and
 - (g) proof of compliance with applicable consent or notice provisions of Rule 4.

(D) With reference to any exception that may be granted administratively without hearing as provided by any provision of this Rule 4:

- (1) any required proof of consent shall be evidenced by written waivers setting forth the substance of the exception sought and expressly consenting thereto, and signed by the person whose consent is required by the applicable provision of this Rule;

(2) any required notice shall be given in the manner provided in Rule 1207 (B), except that in lieu of stating the time and place of hearing, such notice shall state that the exception sought may be granted without hearing unless a protest is filed with the Santa Fe office of the Division within twenty (20) days after the filing of the application and proof of notice with the Division. An affidavit shall be filed with the application setting forth the information required by Rule 1207 (C) with respect to any persons required to be notified by the applicable provision of this Rule from whom written waivers are not furnished;

(3) if an application is supported by written waivers as provided in Rule 4(D) (1) from all persons whose consent is required and an affidavit attesting that the persons whose waivers are attached are all of the persons whose consent is required, the Director may grant the application without further notice or hearing; and

(4) if an application is supported by proof of notice as provided in Rule 4(D) (2), the Director may grant the application without hearing if no protest is filed with the Division within twenty (20) days after the date of filing of the application and proof of notice.

(E) The Division Director may set for hearing any application that was filed for administrative approval. If a protest is filed as to any such application as provided in Rule 4(D), such application shall be denied or set for hearing, in the discretion of the Director.

RULE 5. WELL TESTING:

(A) **Gas-liquid ratio tests:** The operator of each newly completed well shall conduct a gas-liquid ratio test on the well upon recovery of all load oil from the well, provided however, that in no event shall the test be commenced later than 30 days from the date of first production. Semi-annual gas-liquid ratio tests shall be conducted on all wells during each year in accordance with a test schedule prepared by the Hobbs district office of the Division. The initial gas-liquid ratio test shall suffice as the first semi-annual test. Any well that is shut-in shall be exempt from the gas-liquid ratio test requirement so long as it remains shut-in. Gas-liquid ratio tests shall be conducted for 24 hours, being the final 24 hours of a 72-hour period during which the well shall be produced at a constant normal rate of production. Results of each test shall be filed on Division Form C-116 on or before the tenth day of the following month. At least 72 hours prior to commencement of any such gas-liquid ratio tests, each operator shall file with the Hobbs district office of the Division a test schedule for its wells specifying the time each of its wells is to be tested. Copies of the

test schedule shall also be furnished to all offset operators. The supervisor of the Hobbs district office may grant an exception to the above well-test requirements where it is demonstrated that the well produces no liquids. Special gas-liquid ratio tests shall also be conducted at the request of the Division and may also be conducted at the option of the operator. Such special gas-liquid ratio tests shall be conducted in accordance with the procedures outlined hereinabove, including notification to the Division and offset operators.

(B) An initial shut-in pressure test shall be conducted on each gas well and shall be reported to the Division on Form C-125.

RULE 6. MISCELLANEOUS:

(A) Oil wells in the Jalmat Gas Pool shall receive oil and casinghead gas allowables as provided in Division Rules 503, 505, and 506.

(B) All existing exceptions, whether granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice.

(5) Jurisdiction is hereby retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



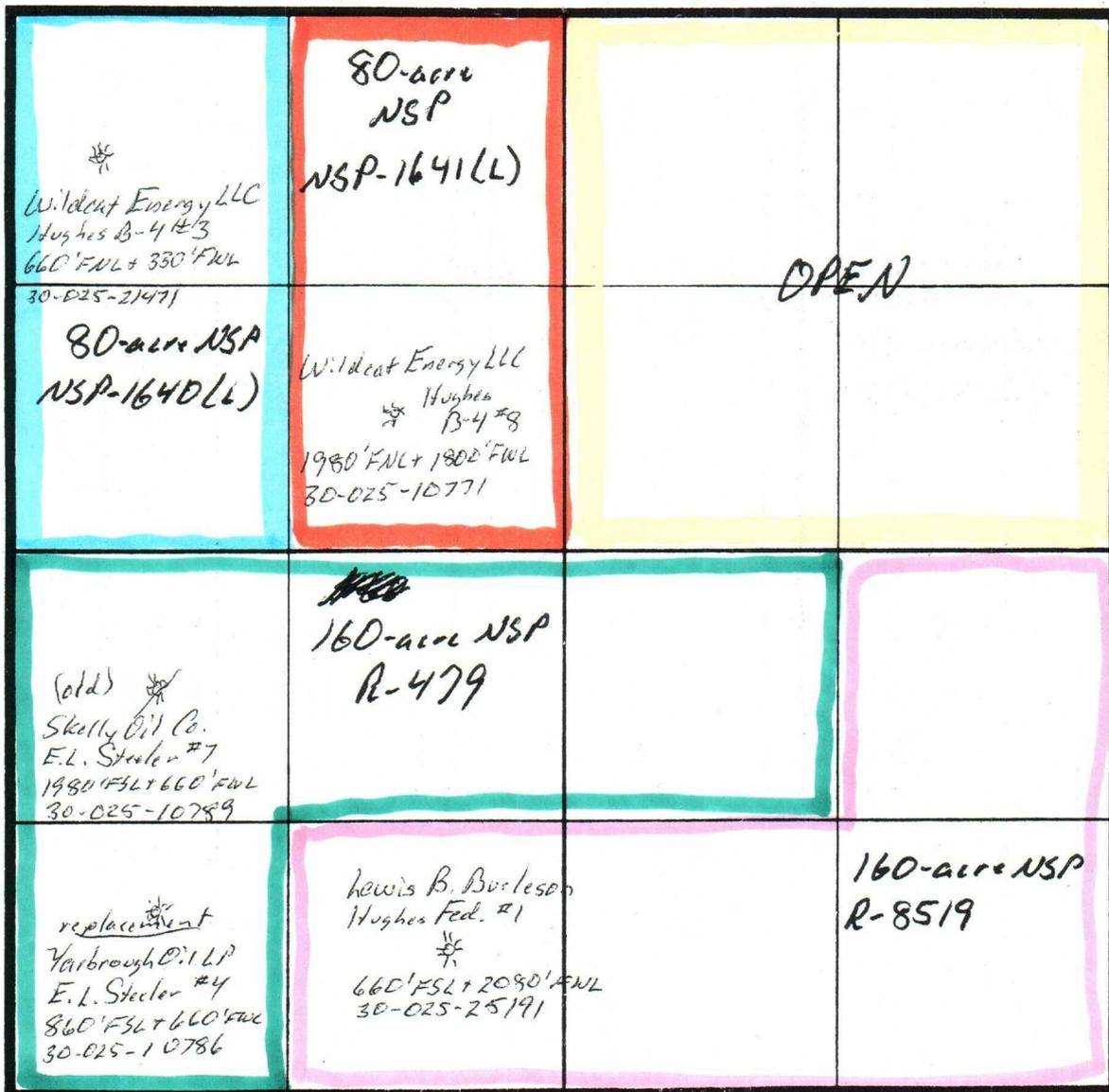
STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director

SEAL

Sec 17 Township No. 23 South of Range No. 37 East

Jalmat Gas Production
dedicated acreage





NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

April 12, 2004

Joanna Prukop
Cabinet Secretary
Acting Director
Oil Conservation Division

Yarbrough Oil, L. P.
c/o **Oil Reports & Gas Services, Inc.**
1008 W. Broadway
Hobbs, New Mexico 88240

Attention: Gaye Heard
gheard@oilreportsinc.com

Administrative Order NSP-1871
(Administrative Reinstatement of Division Order No. R-479)

Dear Ms. Heard:

Reference is made to the following: (i) your application on behalf of the operator, Yarbrough Oil, L. P. (Yarbrough") filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe on March 29, 2004 (*administrative application reference No. pMES0-410348639*); and (ii) the Division's records in Santa Fe: all concerning Yarbrough's request to administratively amend Division Order No. R-479, dated May 27, 1954, which order authorized the creation of a non-standard 160-acre gas spacing unit in the Jalmat Gas Pool (79240) comprising the N/2 SW/4, SW/4 SW/4, and NW/4 SE/4 of Section 17, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico.

By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorating of gas production to cease within the Eumont Gas Pool and promulgated "*Special Pool Rules for the Jalmat Gas Pool*," which provides for: (i) 640-acre standard gas spacing units; (ii) gas development on a well density based on one well per 160 acres; (iii) gas well locations to be no closer than 660 feet to any outer boundary of its assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line; and (iv) administrative exceptions, in most cases, to these rules.

From the Division's records and from the information provided in your application, it is understood that by Division Order No. R-479, issued in Case No. 703 on May 27, 1954, this 160-acre non-standard gas spacing unit was initially established for Jalmat gas production from Skelly Oil Company's E. L. Steeler Well No. 7 (API No; 30-025-10789) located at a standard gas well location 1980 feet from the South line and 660 feet from the West line (Unit L) of Section 17. This well ceased producing from the Jalmat Gas Pool in February, 1974 and is currently temporarily abandoned in the Langlie-Mattix (Yates-Seven-Rivers-Queen-Grayburg) Pool (37240)

From your application, it would appear that Yarbrough intends to re-complete its E. L. Steeler Well No. 4 (API No. 30-025-10786), located at a standard Jalmat gas well location 860 feet from the South line and 660 feet from the West line (Unit M) of Section 17, from the Langlie-Mattix (Yates-Seven-Rivers-Queen-Grayburg) Pool into the Jalmat Gas Pool.

Yarbrough Oil, L. P.

Division Administrative Order NSP-1871
(Administrative Reinstatement of Division Order No. R-479)

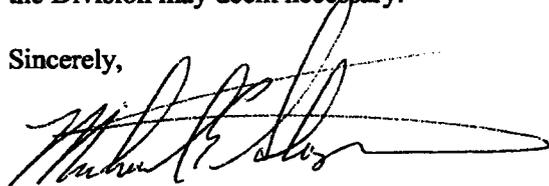
April 12, 2004

Page 2

The above-described 160-acre non-standard Jalmat gas spacing unit initially authorized by Division Order No. R-479 is hereby restored for Yarbrough's above-described E. L. Steeler Well No. 4. Division Order No. R-479 is hereby amended to reflect this well change; furthermore, all provisions applicable to the subject 160-acre non-standard gas spacing unit in Division Order No. R-479, not in conflict with this order, shall remain in full force and affect 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,



Michael E. Stogner
Engineer/Hearing Officer

MES/ms

cc: New Mexico Oil Conservation Division – Hobbs
File: Case No. 703
Mr. Eddy W. Seay – Hobbs, NM (seay04@leaco.net)

BEFORE THE OIL CONSERVATION COMMISSION
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
COMMISSION OF THE STATE OF NEW
MEXICO FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 703
Order No. R-479

THE APPLICATION OF SKELLY OIL COMPANY
FOR AN ORDER GRANTING APPROVAL OF AN
EXCEPTION PURSUANT TO RULE 7 (a) OF
ORDER NO. R-369-A IN ESTABLISHMENT OF AN
UNORTHODOX GAS PRORATION UNIT OF 160
CONTIGUOUS ACRES CONSISTING OF THE WEST
HALF SOUTHWEST QUARTER, NORTHEAST QUARTER
SOUTHWEST QUARTER AND NORTHWEST QUARTER
SOUTHEAST QUARTER OF SECTION 17, TOWNSHIP 23
SOUTH, RANGE 37 EAST, NMPM, LEA COUNTY, NEW
MEXICO ADJACENT TO THE LANGMAT GAS POOL.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 o'clock a. m., on May 19, 1954, at Santa Fe, New Mexico, before the Oil Conservation Commission, hereinafter referred to as the "Commission".

NOW, on this 27th day of May, 1954, the Commission, a quorum being present having considered the records and testimony adduced, and being fully advised in the premises;

FINDS:

(1) That due notice of the time and place of hearing and the purpose thereof having been given as required by law, the Commission has jurisdiction of this case and the subject matter thereof,

(2) That pursuant to provisions of Rule 7 (a) of Order No. R-369-A, the Commission has power and authority to permit the formation of a gas proration unit consisting of other than a legal quarter section after notice and hearing by the Commission.

(3) That applicant, Skelly Oil Company, is the owner of an oil and gas lease in Lea County, New Mexico the land consisting of other than a legal quarter section, and described as follows, to-wit:

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM
W/2 SW/4, NE/4 SW/4, NW/4 SE/4 of Section 17

containing 160 acres, more or less.

(4) That applicant, Skelly Oil Company, has a producing well on the aforesaid lease known as E. L. Steeler, No. 7 located 1980' from the South line and 660' from the West line of Section 17, Township 23 South, Range 37 East.

(5) That the aforesaid well is located within one mile of the limits of the pool heretofore delineated and designated as the Langmat Gas Pool.

(6) That it is impractical to pool applicant's said lease with adjoining acreage in the south half of Section 17, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, and that the owner of adjoining acreage in said half section have not objected to the formation of the proposed proration unit of 160 acres.

(7) That unless a proration unit consisting of applicant's aforesaid acreage is permitted, applicant will be deprived of the opportunity to recover its just and equitable share of the natural gas in the Langmat Gas Pool.

(8) That creation of a proration unit consisting of the aforesaid acreage will not cause but will prevent waste, will protect correlative rights, and is necessary to prevent confiscation of applicant's property.

IT IS THEREFORE ORDERED:

(1) That the application of Skelly Oil Company for approval of an unorthodox proration unit consisting of the following described acreage

TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM
W/2 SW/4, NE/4 SW/4, NW/4 SE/4 of Section 17

be and the same is hereby approved, and a proration unit consisting of aforesaid acreage is hereby created.

(2) That applicant's well, E. L. Steeler, No. 7, located in the NW/4 SW/4 of Section 17, Township 23 South, Range 37 East, NMPM, shall be granted an allowable in the proportion that the above described 160 acre unit bears to the standard or orthodox proration unit for said pool, all until further order of the Commission.

DONE at Santa Fe, New Mexico, the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

EDWIN L. MECHEM, Chairman

E. S. WALKER, Member

R. R. SPURRIER, Secretary and Member

(S E A L)

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9204
Order No. R-8519

APPLICATION OF SAMEDAN OIL
CORPORATION FOR A NON-STANDARD
GAS PRORATION UNIT, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on August 26, 1987, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 1st day of October, 1987, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Samedan Oil Corporation, seeks the approval of a 160-acre non-standard gas proration unit consisting of the SE/4 SW/4, NE/4 SE/4, and the S/2 SE/4 of Section 17, Township 23 South, Range 37 East, NMPM, Jalmat Gas Pool, Lea County, New Mexico, to be dedicated to its Hughes Federal Well No. 3 located 660 feet from the South line and 2080 feet from the West line (Unit N) of said Section 17.

(3) The entire non-standard proration unit may reasonably be presumed productive of gas from the Jalmat Gas Pool and the entire non-standard gas proration unit can be efficiently and economically drained and developed by the aforesaid well.

(4) Approval of the subject application will afford the applicant the opportunity to produce his just and equitable share of the gas in the Jalmat Gas Pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells, and will otherwise prevent waste and protect correlative rights.

(5) At the time of the hearing, the applicant further requested that approval of the subject non-standard proration unit be made effective April 28, 1987, for purposes of assignment of allowable.

(6) The record in this case shows that an application for a non-standard proration unit was originally filed with the Division for administrative approval on April 28, 1987, and that the application was subsequently set for hearing.

(7) Inasmuch as the advertisement for this case does not contain the request by the applicant for an effective order date of April 28, 1987, the examiner at the time of the hearing directed the applicant to notify and obtain a waiver of objection from offset operators who had production in the Jalmat Gas Pool.

(8) Subsequent to the hearing, the applicant provided the Division with a waiver of objection from Penroc Oil Corporation, the only offset operator with Jalmat Gas Pool production.

(9) Approval of the subject application effective April 28, 1987, will not violate correlative rights and should therefore be approved.

IT IS THEREFORE ORDERED THAT:

(1) A 160-acre non-standard gas proration unit in the Jalmat Gas Pool comprising the SE/4 SW/4, NE/4 SE/4, and the S/2 SE/4 of Section 17, Township 23 South, Range 37 East, NMPM, Lea County, New Mexico, is hereby established and dedicated to the applicant's Hughes Federal Well No. 3 located 660 feet from the South line and 2080 feet from the West line (Unit N) of said Section 17.

(2) The effective date of this order shall be April 28, 1987.

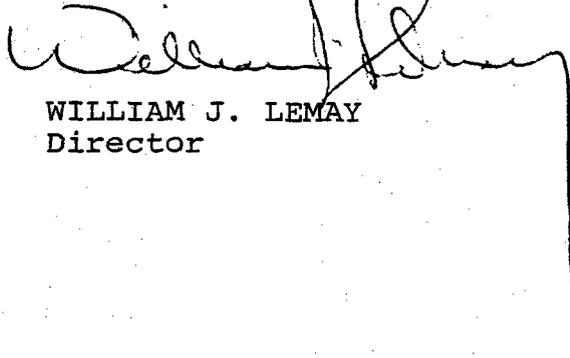
-3-

Case No. 9204
Order No. R-8519

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in dark ink, appearing to read "William J. Lemay", is written over the typed name. A long vertical line extends from the bottom of the signature down towards the bottom right of the page.

WILLIAM J. LEMAY
Director

S E A L

fd/

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

December 10, 1991

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Samedan Oil Corporation
10 Desta Drive
Suite 240 East
Midland, Texas 79705

Attention: Judy Thorneberry

Administrative Order NSP-1640(L)

Dear Ms. Thorneberry:

Reference is made to your application dated November 18, 1991 for an 80-acre non-standard gas spacing and proration unit consisting of the following acreage in the Jalmat Gas Pool:

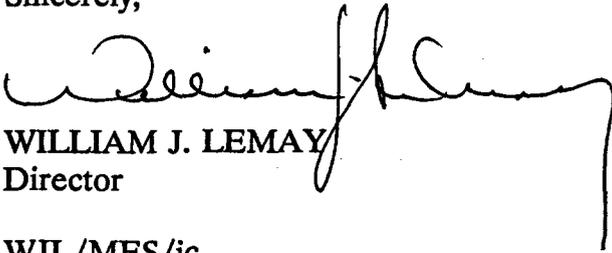
LEA COUNTY, NEW MEXICO
TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM
Section 17: W/2 NW/4

It is our understanding that this unit is to be dedicated to your existing Langlie - Mattix "B-4" Penrose (Queen) Unit Well No. 11 (formerly the Hughes "B-4" Well No. 11) which was drilled in 1965 and completed in the Langlie - Mattix Pool at a standard oil well location 660 feet from the North line and 330 feet from the West line (Unit D) of said Section 17. We further understand that the existing Queen interval will be properly plugged back and said well will be recompleted to the Jalmat Gas Pool, which pursuant to the Special Rules and Regulations for the Jalmat Gas Pool as promulgated by Division Order No. R-8170, as amended, is unorthodox.

Samedan Oil Corporation
Administrative Order NSP-1640(L)
Page 2

By authority granted me under the provisions of Rule 2(a)9 and 2(c) of the Special Rules and Regulations for the Jalmat Gas Pool, as promulgated by Division Order No. R-8170, as amended, the above-described non-standard gas proration unit and resulting unorthodox gas well location is hereby approved.

Sincerely,

A handwritten signature in black ink, appearing to read 'William J. Lemay', written over the typed name and title.

WILLIAM J. LEMAY
Director

WJL/MES/jc

cc: Oil Conservation Division - Hobbs
U.S. BLM - Carlsbad

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



BRUCE KING
GOVERNOR

December 10, 1991



POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Samedan Oil Corporation
10 Desta Drive
Suite 240 East
Midland, Texas 79705

Attention: Judy Thorneberry

Administrative Order NSP-1641(L)

Dear Ms. Thorneberry:

Reference is made to your application dated November 18, 1991 for an 80-acre non-standard gas spacing and proration unit consisting of the following acreage in the Jalmat Gas Pool:

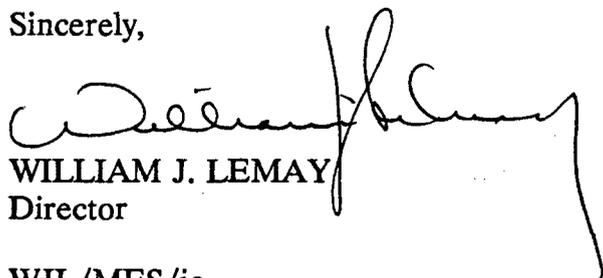
LEA COUNTY, NEW MEXICO
TOWNSHIP 23 SOUTH, RANGE 37 EAST, NMPM
Section 17: E/2 NW/4

It is our understanding that this unit is to be dedicated to your existing Langlie - Mattix "B-4" Penrose (Queen) Unit Well No. 8 (formerly the Hughes "B-4" Well No. 8) which was drilled in 1955 and completed in the Langlie - Mattix Pool at a standard oil well location 1980 feet from the North line and 1800 feet from the West line (Unit F) of said Section 17. We further understand that the existing Queen interval will be properly plugged back and said well will be recompleted to the Jalmat Gas Pool, which pursuant to the Special Rules and Regulations for the Jalmat Gas Pool as promulgated by Division Order No. R-8170, as amended, is unorthodox.

Samedan Oil Corporation
Administrative Order NSP-1641(L)
Page 2

By authority granted me under the provisions of Rule 2(a)9 and 2(c) of the Special Rules and Regulations for the Jalmat Gas Pool, as promulgated by Division Order No. R-8170, as amended, the above-described non-standard gas proration unit and resulting unorthodox gas well location is hereby approved.

Sincerely,



WILLIAM J. LEMAY
Director

WJL/MES/jc

cc: Oil Conservation Division - Hobbs
U.S. BLM - Carlsbad