



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

CDX Gas, L.L.C.

4801 N. Butler Avenue – Suite 2000

Farmington, New Mexico 87401

Attention: Richard Corcoran

Land Manager

Rich.Corcoran@cdxgas.com

August 4, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Administrative Order NSL-5090

Dear Mr. Corcoran:

Reference is made to the following: (i) your application submitted to the New Mexico Oil Conservation Division ("Division") on June 17, 2004 (*administrative application reference No. pMES0-421730481*); (ii) your telephone conversation with Mr. Michael E. Stogner, Hearing Officer/Engineer with the Division in Santa Fe, on Tuesday afternoon, August 3, 2004; and (iii) the Division's records in Aztec and Santa Fe: all concerning CDX Gas, L.L.C.'s ("CDX") request for exceptions to the well location requirements governing the following pools:

(a) **BLANCO-MESAVERDE POOL (72319)**: the "*Special Rules for the Blanco-Mesaverde Pool*," as promulgated by Division Order No. R-10987-A, issued in Case No. 12069 and dated February 1, 1999, as amended by Division Order No. R-10987-A (1), dated December 2, 2002;

(b) **BASIN-DAKOTA POOL (71599)**: the "*Special Rules for the Basin-Dakota Pool*," as promulgated by Division Order No. R-10987-B, issued in Case No. 12290 and dated June 30, 2000, as amended by Division Orders No. R-10987-B (1), dated August 10, 2000, and R-10987-B (2), dated January 29, 2002;

(c) **UNDESIGNATED TAPACITO-GALLUP ASSOCIATED POOL (58090)**: the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest New Mexico and Southeast New Mexico/Special Rules and Regulations for the Tapacito-Gallup Associated Pool*," as promulgated by Division Order No. R-5353, as amended, which: (i) provides for oil wells to be developed on 80-acre spacing and proration units comprising two contiguous quarter-quarter sections, being the N/2 S/2, E/2, or W/2 of a single governmental quarter section being a legal subdivision of the United States Public Land Surveys, and for such oil wells to be located not closer than 790 feet to any quarter section line nor closer than 330 feet to any quarter-quarter section line or sub-division inner boundary; (ii) provides for gas wells to be spaced on 320-acre spacing and proration units that consist of two contiguous quarter sections, being the N/2 S/2, E/2, or W/2 of

a single governmental section, and for such gas wells to be located not closer than 790 feet to any quarter section line nor closer than 330 feet to any quarter-quarter section line or sub-division inner boundary; and (iii) prohibits the simultaneous dedication of any acreage assigned to an oil well with acreage assigned a gas well; and

(d) UNDESIGNATED WILD HORSE-GALLUP POOL (87360) or UNDESIGNATED BS MESA-GALLUP POOL (72920): Division Rule 104.C (3), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

CDX proposes to drill its Jicarilla "C" Well No. 8-F at an unorthodox location within the Blanco-Mesaverde Pool, Basin-Dakota Pool, and Gallup formation 2355 feet from the North line and 2635 feet from the East line (Unit G) of Section 13, Township 26 North, Range 5 West, NMPM, Rio Arriba County, New Mexico.

This application has been duly filed under the provisions of Division Rules 104.F, 605.B, and 1207.A (2) and the applicable rules governing the Blanco-Mesaverde (Gas), Basin-Dakota (Gas), and Tapacito-Gallup Associated Pools.

Gas production from the Blanco-Mesaverde Pool is to be included within an existing standard 320-acre lay-down gas spacing and proration unit ("GPU") comprising the N/2 of Section 13, which is currently dedicated to CDX's: (i) Jicarilla "C" Well No. 8 (API No. 30-039-08148), located at a location now considered standard, but unorthodox at the time it was drilled (spud date - November 22, 1966; approved by Division Order No. R-3202, issued in Case No. 3536 on March 14, 1967) 1850 feet from the North line and 790 feet from the West line (Unit E) of Section 13; and (ii) Jicarilla "C" Well No. 8-A (API No. 30-039-21640), located at a standard infill gas well location 800 feet from the North line and 1485 feet from the East line (Unit B) of Section 13.

Gas production from the Basin-Dakota Pool is to be included within an existing standard 320-acre lay-down GPU that also comprises the N/2 of Section 13 that is currently dedicated to CDX's Jicarilla "C" Well No. 8-E (API No. 30-039-22577), located at a standard gas well location 1020 feet from the North line and 870 feet from the East line (Unit A) of Section 13.

The proposed location is within two miles of the three Gallup pools (Undesignated Tapacito-Gallup Associated, Undesignated Wild Horse-Gallup, and BS Mesa-Gallup Pools) and, pursuant to Division Rule 104.A (1) (a), is within the governing limits of all three pools. The size of the spacing/proration unit and acreage assignment for any Gallup production will be dependant upon which Gallup pool is ultimately assigned the well by the supervisor of the Division's Aztec district office: Therefore, if this well:

(a) is a gas well assigned to the Undesignated Tapacito-Gallup Associated Pool; the N/2 of Section 13 is to be dedicated to this well in order to form a standard 320-acre lay-down gas spacing and proration unit;

- (b) is an oil well assigned to the Undesignated Tapacito-Gallup Associated Pool; the E/2 NE/4 of Section 13 is to be dedicated to this well in order to form a standard 80-acre stand-up oil spacing and proration unit; and
- (c) is a gas well assigned either to the Undesignated BS Mesa-Gallup or Wild Horse-Gallup Pools; the NE/4 of Section 13 is to be dedicated to this well in order to form a standard 160-acre gas spacing unit for either pool.

It is the Division's understanding that all of Sections 13, 14, 23, and 24, all in Township 26 North, Range 5 West, NMPM, Rio Arriba County, New Mexico comprise a single Jicarilla Apache tribal oil and gas lease (Jicarilla Contract No. 108) with common mineral ownership as to the Gallup, Dakota, and Mesaverde intervals; therefore, there are no adversely effected offset mineral interests to the subject unorthodox well within the aforementioned 80, 160, and 320-acre units.

By the authority granted me under the provisions of Division Rule 104.F (2), as revised, and the applicable provisions governing the Blanco-Mesaverde (Gas), Basin-Dakota (Gas), and Tapacito-Gallup Associated Pools, the above-described unorthodox: (i) infill Blanco-Mesaverde gas well location; (ii) infill Basin-Dakota gas well location; and (iii) Gallup oil or gas well location, for CDX's proposed Jicarilla "C" Well No. 8-F is hereby approved.

Further, the three above-described Mesaverde gas wells (Jicarilla "C" Wells No. 8, 8-A, and 8-F), two above-described Basin-Dakota gas wells (Jicarilla "C" Wells No. 8-E and 8-F) and both 320-acre lay-down Blanco-Mesaverde and Basin-Dakota GPU's will be subject to all existing rules, regulations, policies, and procedures applicable to prorated gas pools in Northwest, New Mexico. Also, whichever is applicable, either the proposed 80-acre oil or 320-acre gas spacing and proration unit shall be subject to all existing rules, regulations, policies, and procedures applicable to the Tapacito-Gallup Associated Pool.

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/mes

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington