



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

April 6, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Chevron U.S.A., Inc.
c/o **ChevronTexaco**
11,111 S. Wilcrest – Room S-1052
Houston, Texas 77099

Attention: Michael R. Villalva
Petroleum Engineer
mrvillalva@chevrontexaco.com

Administrative Order NSL-5187 (SD)

Dear Mr. Villalva:

Reference is made to the following: (i) your application for an exception to Division Rule 104.B (1) submitted on behalf of the operator, Chevron U.S.A., Inc. ("Chevron"), to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on March 7, 2005 (***administrative application reference No. pSEM0-506648881***); and (ii) the Division's records: all concerning Chevron's plans for additional development of the Penrose Skelly (Grayburg) Pool (**50350**) within a former standard 40-acre oil spacing and proration unit comprising the SW/4 SE/4 (Unit O) of Section 34, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

From the Division's records, initial development of the Penrose Skelly (Grayburg) Pool within this 40-acre unit commenced in June, 1940 when the Gypsy Production Division of the Gulf Oil Corporation of Hobbs, New Mexico drilled and completed its Mark Owen Well No. 2 (**API No. 30-025-07002**) at a standard oil well location 660 feet from the South line and 1980 feet from the East line (Unit O) of Section 34. Production ceased from this well in February, 1962, and in 1976 Gulf Oil Corporation finally plugged and abandoned the well.

It is the Division's understanding that the SE/4 of Section 34 comprises a single fee lease (Mark Owen lease) with common mineral interest in which Chevron is the leasehold operator; therefore, there are no adversely effected offsets to the subject 40-acre tract within the Grayburg interval.

Moreover, Chevron intends to re-establish Grayburg oil production within the subject 40-acre unit by:

- (1) re-completing its existing Mark Owen Well No. 6 (**API No. 30-025-07005**) from the Blinbry Gas Pool (**72480**) to the Grayburg formation, which well is located at a standard oil well location 554 feet from the South line and 2086 feet from the West line of Section 34; and

(2) drilling its proposed Mark Owen Well No. 10 at an unorthodox oil well location 400 feet from the South line and 1480 feet from the East line of Section 34.

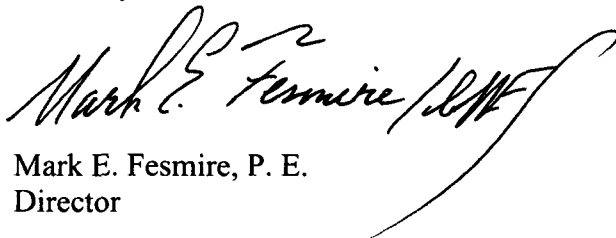
Your application for the proposed unorthodox Grayburg oil well location has been duly filed under the provisions of Division Rule 104.F.

By the authority granted me under Division Rule 104.F (2), the above-described unorthodox Grayburg oil well location for Chevron's proposed Mark Owen Well No. 10 is hereby approved.

Further, both aforementioned wells and 40-acre oil spacing and proration unit will be subject to all existing rules, regulations, policies, and procedures applicable to this 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/ms

cc: New Mexico Oil Conservation Division - Hobbs