



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

August 23, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

LCX Energy, L.L.C.
110 Marienfield Street – Suite 200
Midland, Texas 79701

Attention: **Larry Gillette**
Operations Manager

Administrative Order NSL-5261 (BHL)
CONFINED PROJECT AREA

Dear Mr. Gillette:

Reference is made to the following: (i) your application (*administrative application reference No. pSEM0-519547840*) filed with the New Mexico Oil Conservation Division (“Division”) in Santa Fe, New Mexico on July 14, 2005; and (ii) the Division’s records in Artesia and Santa Fe: all concerning LCX Energy, L.L.C.’s (“LCX”) request for exception to Division Rules 111.A (13) and 111.C (2).

The Division Director Finds That:

- (1) LCX seeks an exception to Division Rules 111.A (13) and 111.C (2) for its proposed Fed-Com 1625 Well No. 271 (API No. 30-015-34195) to be drilled in such a manner as to penetrate, build angle, and drill a portion of a lateral drainhole within the Undesignated East Cottonwood Creek-Abo Gas Pool (97373) along a path considered to be unorthodox pursuant to Division Rules 104.C (3), 111.A (7), and 111.A (13);
- (2) By Order No. R-12208, issued in Case No. 13338 on September 8, 2004 and made effective October 1, 2004, the Division created and defined the East Cottonwood Creek-Abo Gas Pool for the production of gas from the Abo formation. The horizontal limits for this pool, as currently designated, include the following lands in Eddy County, New Mexico:

TOWNSHIP 16 SOUTH, RANGE 25 EAST, NMPM

Section 29:	N/2
Section 30:	E/2
Section 31:	E/2
Section 32:	N/2;

- (3) The East Cottonwood Creek-Abo Gas Pool is an unprorated shallow gas pool currently governed under Division Rule 104.C (3), which provides for 160-acre gas spacing units and requires wells be located no closer than 660 feet to any outer boundary of such unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary;

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- (4) The 320-acre "project area" proposed by LCX comprises the W/2 of Section 27, Township 16 South, Range 25 East, NMPM, Eddy County, New Mexico, which is created by combining two standard 160-acre gas spacing units, the NW/4 and SW/4 of Section 27;
- (5) LCX intends to drill its proposed Fed-Com 1625 Well No. 271 from a surface location 200 feet from the North line and 700 feet from the West line (Unit D) of Section 27; drill vertically to an approximate depth of 5,500 feet (MD); set 7-inch casing; cut an appropriate window in the 7-inch casing allowing for a kick-off to the south at a depth of 4,687 feet (MD) and to build angle at a rate of 23 degrees per 100 feet until 90 degrees off of vertical is achieved at an approximate depth of 5,080 feet (MD); continue by drilling a horizontal drainhole a lateral distance of approximately 4,205 feet to a target depth of 9,285 feet (MD) at an end point (bottomhole location) 660 feet from the South and West lines (Unit M) of Section 27; a 4 ½ inch liner will be set within the entire length of the lateral drainhole; and finally the perforated interval in the Abo formation will be confined to the producing area that is no closer than the standard set-back distance of 660 feet to the project area;
- (6) The "penetration point", as defined by Division Rule 111.A (6), of the Abo formation is expected at an approximate depth of 3,900 feet (TVD), and, since the well will still be vertical at this point, will also be unorthodox, [200 feet from the North line and 700 feet from the West line (Unit D) of Section 27];
- (7) Since it is LCX's intent to complete this well in the manner described above, but to confine the perforations within that portion of the wellbore that meet the orthodox setback requirements for a shallow Abo gas well, an exception to Division Rules 111.A (13) and 111.C (2) is necessary in this instance;
- (8) Any point along the path of this wellbore that is within the Abo formation and is closer than 660 feet to the project area (W/2 of Section 27) is unorthodox and can not be perforated or capable of contributing gas production without obtaining proper authorization through the Division's hearing process; and
- (9) The provisions contained within this order and all other applicable provisions of Division Rule 111 should govern the subject 320-acre project area.

It Is Therefore Ordered That:

(1) The application of LCX Energy, L.L.C. ("LCX") for exception to Division Rules 111.A (13) and 111.C (2) to directionally drill its proposed Fed-Com 1625 Well No. 271 (**API No. 30-01534195**), as a horizontal/lateral well within the Undesignated East Cottonwood Creek-Abo Gas Pool (**97373**) from a surface location 200 feet from the North line and 700 feet from the West line (Unit D) of Section 27, Township 16 South, Range 25 East, NMPM, Eddy County, New Mexico, in the manner described above in Finding Paragraph No. (5), is hereby approved.

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(2) The 320-acre project area comprising the W/2 of Section 27, being two standard 160-acre shallow Abo gas spacing units, shall be dedicated to this well.

(3) The applicable drilling window or producing area that meet the orthodox 660 feet setback requirements for Abo gas production shall apply only to the perforated interval within the Undesignated East Cottonwood Creek-Abo Gas Pool of LCX's proposed Fed-Com. 1625 Well No. 271.

It Is Further Ordered That:

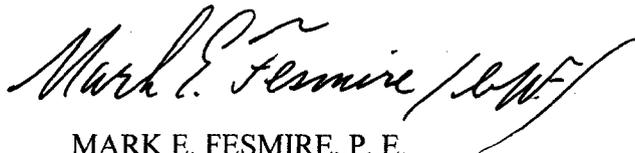
(4) Any point along the path of this wellbore that is within the Abo formation and is closer than 660 feet to the project area (W/2 of Section 27) is unorthodox and can not be perforated or capable of contributing gas production without obtaining proper authorization through the Division's hearing process.

(5) The operator shall comply with all applicable requirements and conditions set forth in Division Rule 111.

(6) 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



MARK E. FESMIRE, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
U. S. Bureau of Land Management - Roswell