



**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

January 3, 2000

Conoco, Inc.
10 Desta Drive - Suite 100-W
Midland, Texas 79705-4500

Attention: Kay Maddox

Re: Administrative application for an exception to Division Rule 104.B (1) for Conoco, Inc. to recomplete its existing SEMU Well No. 135 (API No. 30-025-34666) at an unorthodox Tubb/Drinkard oil well location 1330 feet from the South line and 1980 feet from the East line (Unit J) of Section 25, Township 20 South, Range 37 East, NMPM, Lea County, New Mexico, whereby the NW/4 SE/4 of Section 25 is to be dedicated to this well in order to form a standard 40-acre oil spacing and proration unit for the Undesignated North Hardy-Tubb-Drinkard Pool.

Dear Ms. Maddox:

I am in receipt of your application dated December 23, 1999, which essentially seeks to amend Division Administrative Order NSL-4333, dated July 21, 1999. This order authorized Conoco, Inc. to drill this well at an "internal" unorthodox oil well location within a 160-acre spacing and proration unit for the North Hardy-Strawn Pool. In this case no violation of correlative rights occurs since the well meets the standard 660-foot setback requirements from the outer boundary of its assigned spacing unit. The Division's records show that the SE/4 of Section 25 would share the royalties from this Strawn production in the following manner: (i) 50 percent to the Federal government since the N/2 SE/4 of Section 25 is within United States Government lease No. LC-031696-A; and (ii) 50 percent to the appropriate beneficiary of the New Mexico State Trust Lands since the S/2 of Section 25 is within a state lease issued by the New Mexico State Land Office as State Lease No. B-11349.

Conoco, Inc.'s proposed recompletion is for a pool that is governed under Division Rule 104.B (1), which requires 40-acre spacing and proration units that comprise a legal subdivision of the U. S. Public Land Surveys, which is a single governmental quarter-quarter section or lot. If this well is recompleted to any zone that is spaced on 40 acres, requiring the NW/4 SE/4 Unit J of Section 25 to be dedicated to such production, 100 percent of the royalty interests would be attributed to the aforementioned Federal lease. Assuming radial drainage from a well that is only 10 feet away from a designated property boundary line, at least 50 percent of its production would naturally be attributed to the offsetting property. In your case, assuming the well is indeed straight, 100 percent of the royalties will go to the Federal lease and none would be attributed to the State Trust lands. This constitutes a direct and blatant violation of correlative rights.