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Stogner, Michael, EMNRD

From: Thomas Kellahin [kellahin@earthlink.net] **Sent:** Wed 2/22/2006 9:51 AM
To: Stogner, Michael, EMNRD
Cc: Jerry Daues; Sharon Ward
Subject: Citation's State H Wells
Attachments:  [img074.pdf\(65KB\)](#)  [img075.pdf\(182KB\)](#)

Re: NMOCD Correspondence Reference No. SD-05-05

Dear Mr. Stogner:

Please see attached letter

The message is ready to be sent with the following file or link attachments:
img074
img075

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KELLAHIN & KELLAHIN
Attorney at Law

W. Thomas Kellahin
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P.O. Box 2265
Santa Fe, New Mexico 87504
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Santa Fe, New Mexico 87501
February 22, 2006

Telephone 505-982-4285
Facsimile 505-982-2047
kellahin@earthlink.net

Via e-mail and hand delivery

Mr. Michael E. Stogner
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, NM 87505

Re: Recompletion of the State H-3 and
Planned Recompletions of
State H1, H5, H6, H7 & H8
E/2 Sec 13, T21S, R35E
Lea County, NM

Dear Mr. Stogner:

On behalf of Citation Oil & Gas Company ("Citation"), I would appreciate you contacting Donna Mull of the OCD-Hobbs and confirming for her that NMOCD Correspondence Reference No. SD-05-05, dated November 2, 2005, authorized the simultaneous dedication of a non-standard gas proration unit ("GPU") consisting of the E/2 of Section 13, T21S, R35E such that gas and oil wells were dedicated to the same acreage. This request is based upon a telephone conversation on February 1, 2006, concerning the recent recompletion of the State H-3 Well during which Ms. Mull asked Ms. Debra Harris of Citation to have me confirm with you this OCD authorization letter.

In addition, it is my understanding that this OCD letter confirmed that this GPU is "grandfather" as an exception from all the current Eumont Pools Rules such that any of the eleven (11) existing Eumont wells within this GPU can be recompleted and reclassified for oil wells to gas wells.

By letter¹ dated November 2, 2005, the New Mexico Oil Conservation Division in response to Citation's application dated September 28, 2005, identified the State "H" Well No. 1, State "H" Well No. 1-Y, State "H" Well No. 2, State "H" Well No. 3, State "H" Well No. 3-Y, State "H" Well No. 4, State "H" Well No.4-Y, State "H" Well No. 5, State "H" Well No. 6. State

¹ Referred to as NMOCD Correspondence Reference No SD-05-05 dated November 2, 2005.

February 22, 2006

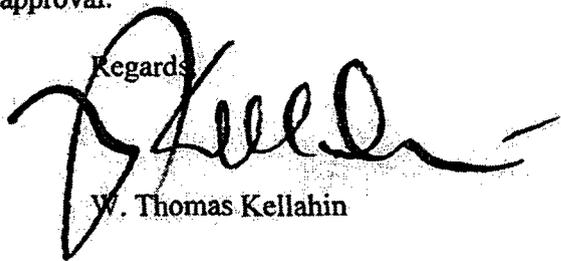
-Page 2-

"H" Well No. 7 and the State "H" Well No. 8 as the eleven wells that are "grand-fathered" as exceptions to the current Eumont Gas Pool Rules (see Order R-8170-P) as ordered:

"IT IS THEREFORE ORDERED THAT development of the Eumont Gas Pool within the E/2 of Section 13 with any of the eleven above-described wells shall be allowed to continue without interruption. HOWEVER, should the operator of this 320-acres within the Eumont Gas Pool add new wells or cause any existing wellbores, other than the eleven above-described wells, to be recompleted within the vertical limits of the Eumont Gas Pool, then Eumont development within the E/2 of Section 13 shall be subject to reevaluation and exceptions to the application rules well be required." (Underlined emphasis added).

Citation plans to recomplete the H-1, H-5, H-6, H-7 and H-8 only into the Yastes/Seven Rivers intervals of the Eumont Gas Pool already has been approved by NMOCD Correspondence Reference No. SD-05-05. As a result of this exception, these wells are not subject to the Pool Rule including the preclusion of the dedication of oil well to the same acreage as dedicated to gas wells. (See Rule 2.C) Therefore, I would appreciate you confirming with Ms. Mull that Citation can file the OCD-Sundry Notice for each well's recompletion with the NMOCD-Hobbs, with reference to the OCD letter as their approval and obtain OCD-Hobbs approval.

Regards



W. Thomas Kellahin

cc: Citation Oil & Gas Company
Attn: Debra Harris

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Attorney at Law

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E/2 Sec 13, T21S, R35E
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2006 FEB 22 PM 1 26

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¹ Referred to as NMOCD Correspondence Reference No SD-05-05 dated November 2, 2005.

New Mexico Oil Conservation Division

February 22, 2006

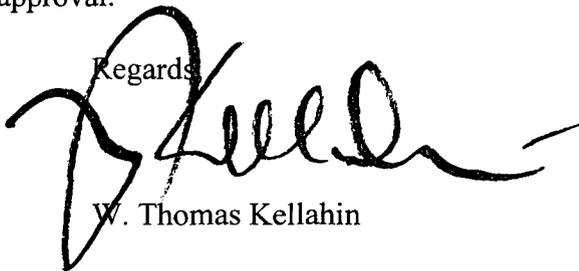
-Page 2-

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"IT IS THEREFORE ORDERED THAT development of the Eumont Gas Pool within the E/2 of Section 13 with any of the eleven above-described wells shall be allowed to continue without interruption. HOWEVER, should the operator of this 320-acres within the Eumont Gas Pool add new wells or cause any existing wellbores, other than the eleven above-described wells, to be recompleted within the vertical limits of the Eumont Gas Pool, then Eumont development within the E/2 of Section 13 shall be subject to reevaluation and exceptions to the application rules well be required." (Underlined emphasis added).

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Regards

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over the typed name below.

W. Thomas Kellahin

cc: Citation Oil & Gas Company

Attn: Debra Harris



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 2, 2005

Citation Oil & Gas Corp.
c/o W. Thomas Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

RE: NMOCD Correspondence Reference No. SD-05-05

Dear Mr. Kellahin:

Reference is made to your letter dated September 28, 2005 and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on behalf of Citation Oil & Gas Corp. of Houston, Texas, concerning past, current, and future development within Eumont (Yates-Seven Rivers-Queen) Gas Pool (76480/22800) underlying the E/2 of Section 13, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, which acreage comprises a single state lease issued by the New Mexico State Land Office (*State Lease No. B-01167-0051*), and the following eleven existing wells:

- (1) State "H" Well No. 1 (API No. 30-025-08558) located 660 feet from the South and East lines (Unit P) of Section 13;
- (2) State "H" Well No. 1-Y (API No. 30-025-03471) located 330 feet from the South line and 990 feet from the East line (Unit P) of Section 13;
- (3) State "H" Well No. 2 (API No. 30-025-03465) located 660 feet from the North line and 1260 feet from the East line (Unit A) of Section 13;
- (4) State "H" Well No. 3 (API No. 30-025-08559) located either 2310 feet or 1980 feet from the North line and 1260 feet from the East line (Unit H) of Section 13;
- (5) State "H" Well No. 3-Y (API No. 30-025-03472) located 2310 feet from the North line and 990 feet from the East line (Unit H) of Section 13;
- (6) State "H" Well No. 4 (API No. 30-025-03466) located either 2310 feet or 1980 feet from the South line and 990 feet from the East line (Unit I) of Section 13;

- (7) State "H" Well No. 4-Y (API No. 30-025-03473) located 1650 feet from the South line and 990 feet from the East line (Unit I) of Section 13;
- (8) State "H" Well No. 5 (API No. 30-025-03467) located 660 feet from the North line and 2310 feet from the East line (Unit B) of Section 13;
- (9) State "H" Well No. 6 (API No. 30-025-03468) located 1980 feet from the North line and 2310 feet from the East line (Unit G) of Section 13;
- (10) State "H" Well No. 7 (API No. 30-025-03469) located 1980 feet from the South and East lines (Unit J) of Section 13; and
- (11) State "H" Well No. 8 (API No. 30-025-03470) located 660 feet from the South line and 1650 feet from the East line (Unit O) of Section 13.

For administrative and record keeping purposes this matter was assigned Division application reference No. pSEM0-527231564.

Division Administrative Order NSP-381, dated August 7, 1957, initially established the subject 320-acre area (E/2 of Section 13) as a non-standard gas spacing and proration unit ("GPU") in the Eumont Gas Pool for the aforementioned State "H" Well No. 4 said to be located 1980 feet from the South line and 990 feet from the East line in Unit "H" of Section 13.

By Division Administrative Order NSL-3947 (SD), dated February 13, 1998, two additional wells, the above-described State "H" Wells No. 2 and 3-Y, were included within the subject 320-acre GPU.

By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Eumont Gas Pool and promulgated "*Special Pool Rules for the Eumont Gas Pool*," which provide for: (i) oil development on standard 40-acre oil spacing units [Rule 2 (B)] and gas development on standard 640-acre gas spacing units [Rule 2 (A)]; (ii) gas development on a well density based on one well per 160 acres [Rule 3 (C)] and absolutely no more than one well per quarter-quarter section within a gas spacing unit [Rule 3 (D)]; (iii) gas well locations to be no closer than 660 feet to any outer boundary of the assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line [Rule 3 (A) (2)]; (iv) oil wells to be no closer than 330 feet to any governmental quarter-quarter section line [Rule 3 (A) (1)]; (v) the strict limitation of only one well per 40-acre oil spacing and proration unit [Rule 3 (B)]; (vi) a strict prohibition on the simultaneous dedication of acreage to Eumont gas and oil wells [Rule 2 (C)]; and (iv) administrative exceptions, in some cases, to these rules [Rules 3 (B), 3 (D), and 4]. FURTHER, Rule 6 (B) of the special Eumont pool rules states "[A]ll 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".

November 2, 2005

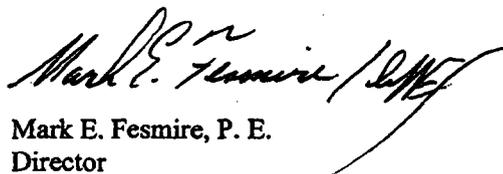
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From the information provided and from the Division's records, these eleven wells have extensive production histories in the Eumont Gas Pool prior to the adoption of Division Order No. R-8170-P. The current instances of concurrent production of gas and oil wells and the simultaneous dedication of acreage to gas and oil wells also commenced prior to the adoption of Division Order No. R-8170-P. No additional Eumont wells have been included within the E/2 of Section 13 since the approval of Division Administrative Order NSL-3947 (SD) in early 1998.

IT IS THEREFORE ORDERED THAT development of the Eumont Gas Pool within the E/2 of Section 13 with any of the eleven above-described wells shall be allowed to continue without interruption. **HOWEVER**, should the operator of this 320 acres within the Eumont Gas Pool add new wells or cause any existing wellbore, other than the eleven above-described wells, to be recompleted within the vertical limits of the Eumont Gas Pool, then Eumont development within the E/2 of Section 13 shall be subject to reevaluation and exceptions to the applicable rules will be required.

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
New Mexico State Land Office – Santa Fe
File: NSP-381
NSL-3947 (SD)
