



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

March 8, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

XTO Energy, Inc.
810 Houston Street
Fort Worth, Texas 76102-6298

Attention: Ryan O'Kelly
Associate Landman
ryan_o'kelly@xtoenergy.com

Administrative Order NSL-5344

Dear Mr. O'Kelly:

Reference is made to the following: (i) your application for XTO Energy, Inc. ("XTO") that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on February 24, 2006 (*administrative application reference No. pTDS0-605930770*); and, (ii) more importantly, the Division's records in Aztec and Santa Fe.

The Division's Staff Examiner Acting on Behalf of the Director Finds That:

(1) XTO seeks approval to produce gas from the Morrison formation within its existing New Mexico Federal "N" Well No. 2-F (*API No. 30-045-33243*) at an unorthodox gas well location within a "160-acre" gas spacing unit comprising the "NE/4" of Section 17, Township 30 North, Range 12 West, NMPM, San Juan County, New Mexico, 1980 feet from the North line and 2610 feet from the East line (Lot 7/Unit G) of Section 17.

(2) By XTO's "Application for Permit to Drill or Reenter" ("APD") on U. S. Bureau of Land Management ("BLM") form No. 3160-3, dated July 15, 2005, this well was permitted as a "Basin Dakota Pool well" to be drilled to a proposed depth of 6,950 feet. Further, the OCD Form C-102 attached to this APD would indicate this well to be an infill Dakota gas well located at a standard gas well location (see the "*Special Rules for the Basin-Dakota Pool*," as promulgated by Division Order No. R-10987-B, 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) within an existing 324.90-acre standard lay-down gas spacing unit for the Basin-Dakota Pool (*pool code 72319*) comprising Lots 1 through 8 (N/2 equivalent) of Section 17.

(3) Attachments to the APD however indicate that XTO expected to intersect the top of the Morrison Shale at a depth of 6,824 feet.

(4) Since there are no Morrison pools within the general area, any "deep" Morrison gas production from this well would be classified "wildcat" (see Division Rule 104.A) and would therefore be governed under the provisions of Division Rule 104.C (1), which provides for: (i) 640-acre spacing units comprising a single governmental section for gas wells in the San Juan Basin below the Dakota formation; and (ii) such wells to be located not closer to the outer boundary of the spacing unit, or section line, than 1200 feet, nor closer than 130 to any quarter section line, and no closer to any internal quarter-quarter section line than 10 feet.

(5) This well was spud on November 28, 2005 and a total depth of 7,000 feet was achieved on December 9, 2005 (see the "sundry notice" on this well on BLM form No. 3160-5 dated December 21, 2005).

(6) Within another sundry notice dated January 13, 2006, XTO states:

"[T]his well was permitted as a Basin Dakota Pool well. After review of the well logs XTO Energy requests permission to complete the [New Mexico Federal "N" Well No. 2-F] in the Morrison formation. The well logs showed potential productive Morrison sands deeper than Base of the Dakota SSands at 6,852 [feet] (defined as 400' below the Base of Greenhorn). XTO plans to test the Morrison from 6,853' - 6,896' and 6,936' - 6'942 [feet]."

(7) At the request of the Division's Aztec district office, XTO submitted an amended OCD Form C-102 dated February 7, 2006 for the Morrison-WC 30N12W17 gas interval (*pool code No. 97507*) showing the correct acreage assignment of 648.64 acres comprising all of Section 17.

(8) Even though the primary zone of interest for this well was the shallower Basin-Dakota interval, being a standard infill gas well location for the Basin-Dakota Pool, XTO knowingly and willfully drilled through to penetrate the Morrison interval at a location considered to be unorthodox, rather such zone was classified gas or oil, or rather developed on 640-acre, 160-acre, or 40-acre spacing.

(9) Any operator intending to test or complete any well within multiple zones that have different spacing and well location rules should make every attempt possible to locate such well at a location considered to be standard for each interval. Exceptions shall require substantial justification and unusual circumstances. Primary zones of interest do not necessarily take precedents over secondary intervals, but can be the contributing factor should geological factors warrant. The reason for this location within the deeper Morrison gas interval is neither based on topography or geology. Your application for XTO was not only filed after the fact and is unsupported, but also contains the wrong information.

(10) However, subsequent to the Division's review of this matter and considering that: (i) all of Section 17 is included within a single federal lease (*United States Government lease No. NM-047*) in which mineral interests within the deep Morrison interval is common throughout and where XTO is the leasehold operator; and (ii) the resultant deep Morrison location, unbeknownst to you, is only unorthodox internally and does not encroach upon any other lease or affected mineral interests. This application, which took a great deal of the Division's time to adequately and fairly respond to, will be approved only with your understanding that that the Division's spacing and well location rules are serious matters and are in place for the purpose of assuring orderly development of New Mexico's valuable oil and gas resources and that XTO must not get into a mode of thinking that considers these rules minor inconveniences and that such applications for exceptions are "open and shut" cases.

It Is Therefore Ordered That:

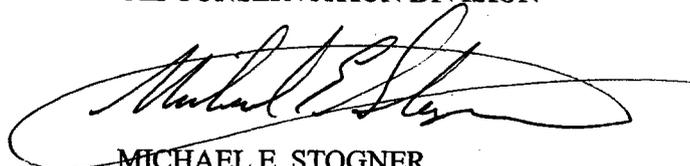
(1) By the authority granted me under the provisions of Division Rules 104.F (2), XTO Energy, Inc. ("XTO") is hereby authorized to produce its existing New Mexico Federal "N" Well No. 2-F (*API No. 30-045-33243*) at an unorthodox deep Morrison gas well location within a standard 648.64-acre gas spacing unit comprising all of Section 17, Township 30 North, Range 12 West, NMPM, Morrison-WC 30N12W17 gas interval (*pool code No. 97507*), San Juan County, New Mexico, 1980 feet from the North line and 2610 feet from the East line (Lot 7/Unit G) of Section 17.

(2) PLEASE NOTE HOWEVER THAT IN THE FUTURE, XTO, as a prudent operator: (i) should take all steps necessary to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant of well location requirements for different producing horizons within the immediate area of operations; and (ii) must submit complete and correct applications seeking administrative relief from the Division's rules and regulations, otherwise all such future applications will be subject to the Division's hearing process until further notice.

(3) 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



MICHAEL E. STOGNER
Engineering Assistant to the Division Director

MES/ms

cc: New Mexico Oil Conservation Division – Aztec
U. S. Bureau of Land Management – Farmington
Mr. James Bruce, Legal Counsel for XTO Energy, Inc. – Santa Fe