



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

June 29, 2006

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Read & Stevens, Inc.
P. O. Box 1518
Roswell, New Mexico 88202

Attention: John C. Maxey, Jr.
Operations Manager
rread@lookingglass.net

Division Administrative Order NSL-5416

Dear Mr. Maxey:

Reference is made to the following: (i) your initial application (*administrative application reference No. pTDS0-615655423*) filed with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on June 5, 2006 for location exceptions to the rules and regulations currently governing either the Diamond Mound-Morrow Gas Pool (76079) or the Duffield-Pennsylvanian Gas Pool (76160) for Read & Stevens, Inc.'s proposed Horseshoe "17" Federal Com. Well No. 1 to be drilled 710 feet from the South line and 480 feet from the East line (Unit P) of Section 17, Township 16 South, Range 27 East, NMPM, Eddy County, New Mexico; (ii) Ms. Susan Rodrigue's letter dated June 9, 2006 with supplemental information to support this application; (iii) your voice-mail message of Tuesday afternoon, June 27, 2006 for Mr. Michael E. Stogner, Engineer with the Division in Santa Fe, checking on the status of this application; and (iv) the Division's records in Artesia and Santa Fe.

The Duffield-Pennsylvanian Gas Pool and that area within one-mile of its boundary is currently governed under Division Rule 104.C (3), see the Division Director's memorandum dated October 25, 1999 concerning older deep gas pools established prior to June 1, 1964, which requires 160-acre spacing units comprising a single governmental quarter section.

The Diamond Mound-Morrow Gas Pool and that area within one-mile of its boundary is currently governed under Division Rule 104.C (2), which requires 320-acre spacing units comprising any two contiguous quarter sections within a single governmental section.

Your application for an unorthodox deep Morrow gas well location, which is located within one-half mile from both pools, has been duly filed under the provisions of Division Rules 104.F and 1210.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

It is the Division's understanding that Read & Stevens, Inc. seeks this location exception for both topographical and geological reasons.

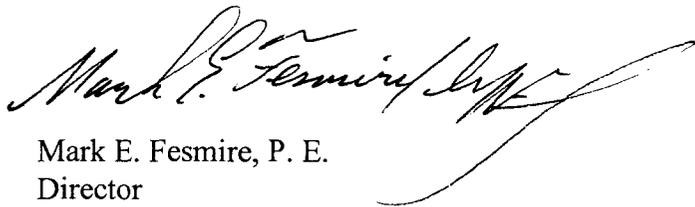
By the authority granted me under the provisions of Division Rule 104.F (2), the above-described unorthodox Morrow gas well location for Read & Stevens, Inc.'s proposed Horseshoe "17" Federal Com. Well No. 1 is hereby approved.

Subsequent to the completion of the Horseshoe "17" Federal Com. Well No. 1, the operator shall consult with the Division's District Supervisor in Artesia as to the proper pool placement of this production and the appropriate assignment of the dedicated acreage. Either:

- (a) the E/2 of Section 17, being a standard 320-acre stand-up deep gas spacing unit for the Undesignated Diamond Mound-Morrow Gas Pool; or
- (b) the SE/4 of Section 17, being a standard 160-acre gas spacing unit for the Undesignated Duffield-Pennsylvanian Gas 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 - Artesia
U. S. Bureau of Land Management - Carlsbad
