



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

April 11, 2007

Elm Ridge Exploration Company, LLC
c/o Kellahin & Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

Attention: Mr. W. Thomas Kellahin, Attorney

Re: **Non-Standard Gas Proration Units**
SW/4 & NW/4 of Section 28, T-25 North, R-12 West, NMPM,
San Juan County, New Mexico

Administrative Order NSP-1916

Dear Mr. Kellahin:

Reference is made to the following:

- (a) your application on behalf of Elm Ridge Exploration Company, LLC ("Elm Ridge") for two non-standard gas proration units (*administrative application referenece No. pDRC0706535289*) that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on March 5, 2007; and
- (b) the Division's records pertinent to your request.

Elm Ridge requests approval of a 160-acre non-standard gas proration unit in the Basin-Fruitland Coal Gas Pool (Gas – 71629) comprising the SW/4 of Section 28, Township 25 North, Range 12 West, NMPM, San Juan County, New Mexico. This unit is to be dedicated to Elm Ridge's existing Bisti Coal "28" Well No. 2 (API No. 30-045-30895) which is located 1857 feet from the South line and 1920 feet from the West line (Unit K) of Section 28. Elm Ridge also requests approval of a 160-acre non-standard gas proration unit in the Basin-Fruitland Coal Gas Pool comprising the NW/4 of Section 28, Township 25 North, Range 12 West, NMPM, San Juan County, New Mexico.

The proposed units are located within the Basin-Fruitland Coal Gas Pool. This pool is currently governed by special pool rules established by Division Order No. R-8768, as amended, which require standard 320-acre gas spacing and proration units with wells to be located no closer than 660 feet to the outer boundary of the proration unit and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

It is our understanding that:

- (1) Elm Ridge is the current lessee of Federal Lease No. NMNM-51013 that encompasses the SW/4 of Section 28;
- (2) Elm Ridge was the previous lessee of Federal Lease No. NMNM-90483 that encompasses the NW/4 of Section 28. The mineral interest on this acreage is owned by the Bureau of Land Management ("BLM") and the surface is owned by the Navajo Nation;
- (3) The Bisti "28" Well No. 2 was originally drilled in November, 2002 on a standard 320-acre unit comprising the W/2 of Section 28. Completion of the well was deferred until a pipe-line right of way could be obtained across Navajo surface. During that time, Federal Lease No. NMNM-90483 expired;
- (4) In December, 2003, Elm Ridge nominated the NW/4 of Section 28 for lease sale by the BLM;
- (5) The Bureau of Indian Affairs ("BIA"), the acting surface management agency for the Navajo Nation, has not cleared the surface of the NW/4 of Section 28 for leasing;
- (6) Elm Ridge is unable, at the current time, to obtain the Federal lease for the NW/4 of Section 28; and
- (7) The E/2 of Section 28 is currently dedicated to Elm Ridge's Bisti Coal "28" Well No. 1 (API No. 30-045-28561).

For applications for non-standard proration units, Division Rule 19.15.14.1210(A)(3) requires notice to all owners of interest in the mineral estate to be excluded from the proration unit in the half section for 320-acre pools. Elm Ridge has provided notice of this application to the BLM. BLM has not objected to the application.

Since Elm Ridge is not the operator or the lessee within the NW/4 of Section 28, it does not have standing to seek the formation of a non-standard 160-acre proration unit comprising that acreage. Therefore, that portion of Elm Ridge's application should be denied.

Pursuant to the authority granted under the provisions of Division Rule 19.15.3.104.D(2), a 160-acre non-standard gas proration unit comprising the SW/4 Section 28, Township 25 North, Range 12 West, NMPM, San Juan County, New Mexico is hereby established. This unit shall be dedicated to the applicant's existing Bisti Coal "28" Well No. 2.

Sincerely,



Mark E. Fesmire, P.E.
Division Director

Administrative Order NSP-1916
Elm Ridge Exploration Company, LLC
April 11, 2007
Page 3

MEF/drc

cc: New Mexico Oil Conservation Division – Aztec
Bureau of Land Management-Farmington