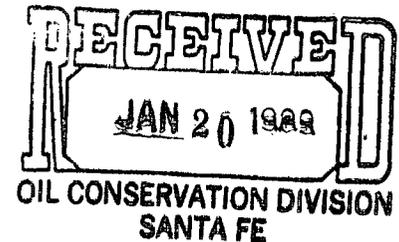


Cole Production Co.

(505) 325-1415
P.O. Box 191
3001 Northridge Dr.
Farmington, New Mexico 87499

January 19, 1989



Michael E. Stogner
Administrative Application Reviewer
New Mexico Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

Ref: Exception to Rule #104
Non-Standard Location

Dear Mr. Stogner:

Approval is requested for a non-standard location in the Counselors Gallup-Dakota Pool in Section 6-Township 23 North-Range 6 West, Rio Arriba County, New Mexico.

The proposed well will be an infield oil well with surrounding wells operated by Jack A. Cole (see Exhibit "C").

It is not possible to spot location to meet Counselors Gallup-Dakota footage requirements due to topography of the surrounding area (see topo map and C-102).

The surrounding acreage within a mile is being operated by or has been farmed out to Jack A. Cole (see Exhibit "C").

The APD has been submitted to the Bureau of Land Management.

For your information, the following Exhibits are attached:

- A. Operator and Lease Name
- B. C-102 Dedicating Acreage
- C. Off-Setting Operators
- D. Topo Map

If you should need any additional documentation, please contact me at your earliest convenience.

Respectfully,

A handwritten signature in cursive script that reads "Dewayne Blancett".

Dewayne Blancett
Production Superintendent
COLE PRODUCTION CO.

cc: Ernie Busch

Cole Production Co.

(505) 325-1415
P.O. Box 191
3001 Northridge Dr.
Farmington, New Mexico 87499

EXHIBIT "A"

Operator - Jack A. Cole
P. O. Box 191
Farmington, New Mexico 87499

Lease Name - Rincon No. 7
Lease No. SF-078362

OIL CONSERVATION DIVISION

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

P. O. BOX 2088
SANTA FE, NEW MEXICO 87501

Form C-102
Revised 10-1-78

All distances must be from the outer boundaries of the Section.

Operator JACK A. COLE		Lease RINCON		Well No. # 7
Unit Letter B	Section 6	Township 23 NORTH	Range 6 WEST	County RIO ARRIBA
Actual Footage Location of Wells 330 feet from the NORTH line and 2070 feet from the EAST line				
Ground Level Elev. 7076	Producing Formation GALLUP	Pool COUNSELORS GALLUP DAKOTA	Dedicated Acreages 160 Acres	

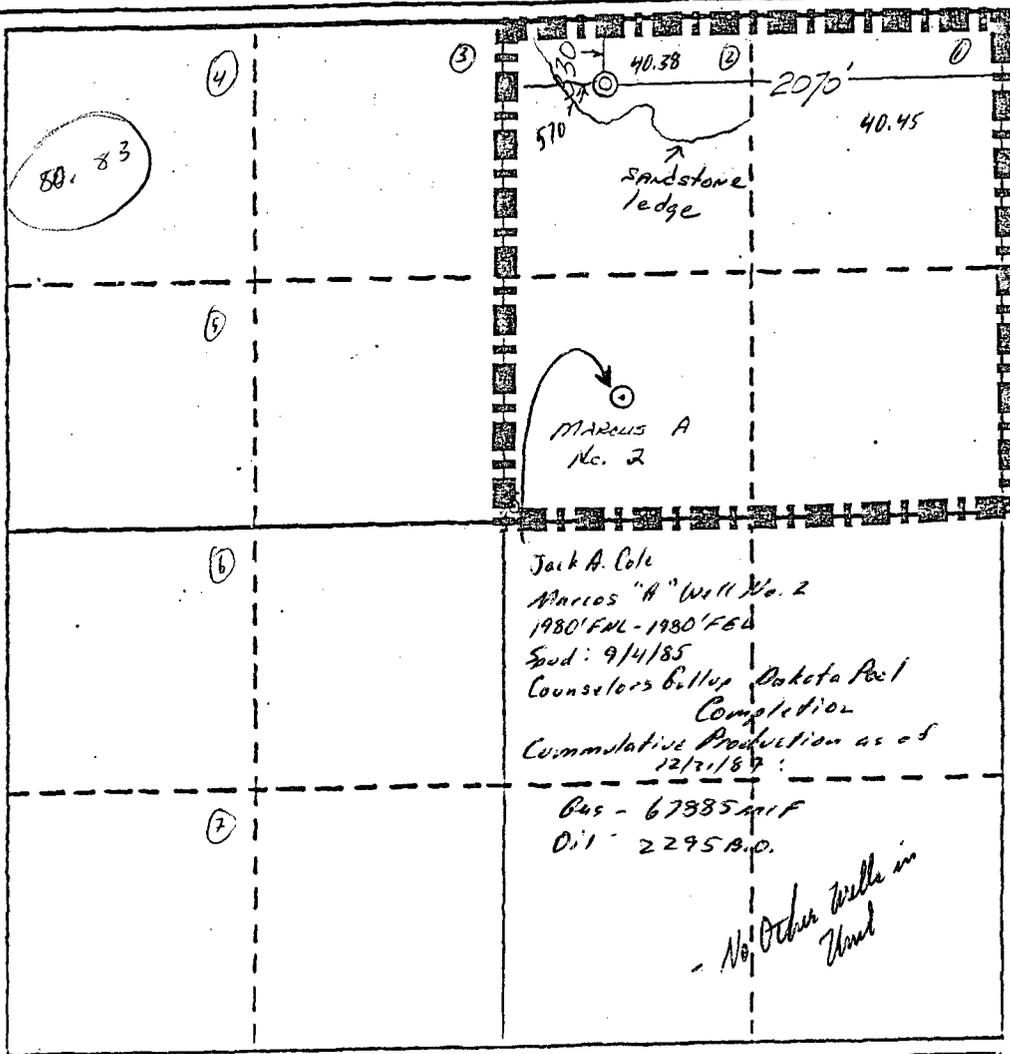
Joined with Marcus A#2

1. Outline the acreage dedicated to the subject well by colored pencil or hachure marks on the plat below.
2. If more than one lease is dedicated to the well, outline each and identify the ownership thereof (both as to working interest and royalty).
3. If more than one lease of different ownership is dedicated to the well, have the interests of all owners been consolidated by communitization, unitization, force-pooling, etc.?

Yes No If answer is "yes," type of consolidation _____

If answer is "no," list the owners and tract descriptions which have actually been consolidated. (Use reverse side of this form if necessary.) _____

No allowable will be assigned to the well until all interests have been consolidated (by communitization, unitization, forced-pooling, or otherwise) or until a non-standard unit, eliminating such interests, has been approved by the Division.



Jack A. Cole
Acreage "A" Well No. 2
1980' EWL - 1980' EBL
Spud: 9/4/85
Counselors Gallup Dakota Pool
Completion
Cumulative Production as of
12/31/87:
Gas - 67885 MCF
Oil - 2295 B.O.

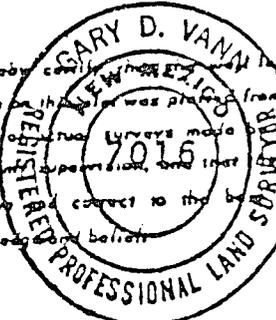
- No Other Wells in Tract

CERTIFICATION

I hereby certify that the information contained herein is true and complete to the best of my knowledge and belief.

Supremo Blumeth
Name
PRODUCTION SUPERINTENDENT
Position
COLE PRODUCTION CO.
Company
NOVEMBER 21, 1988
Date

I have surveyed the location shown on this plat was plotted from field notes of true surveys made by me or under my supervision, and that the same is true and correct to the best of my knowledge and belief.



Date Surveyed
November 9, 1988
Registered Professional Engineer and Land Surveyor
Gary D. Vann
Gary D. Vann
Certificate No.
7016

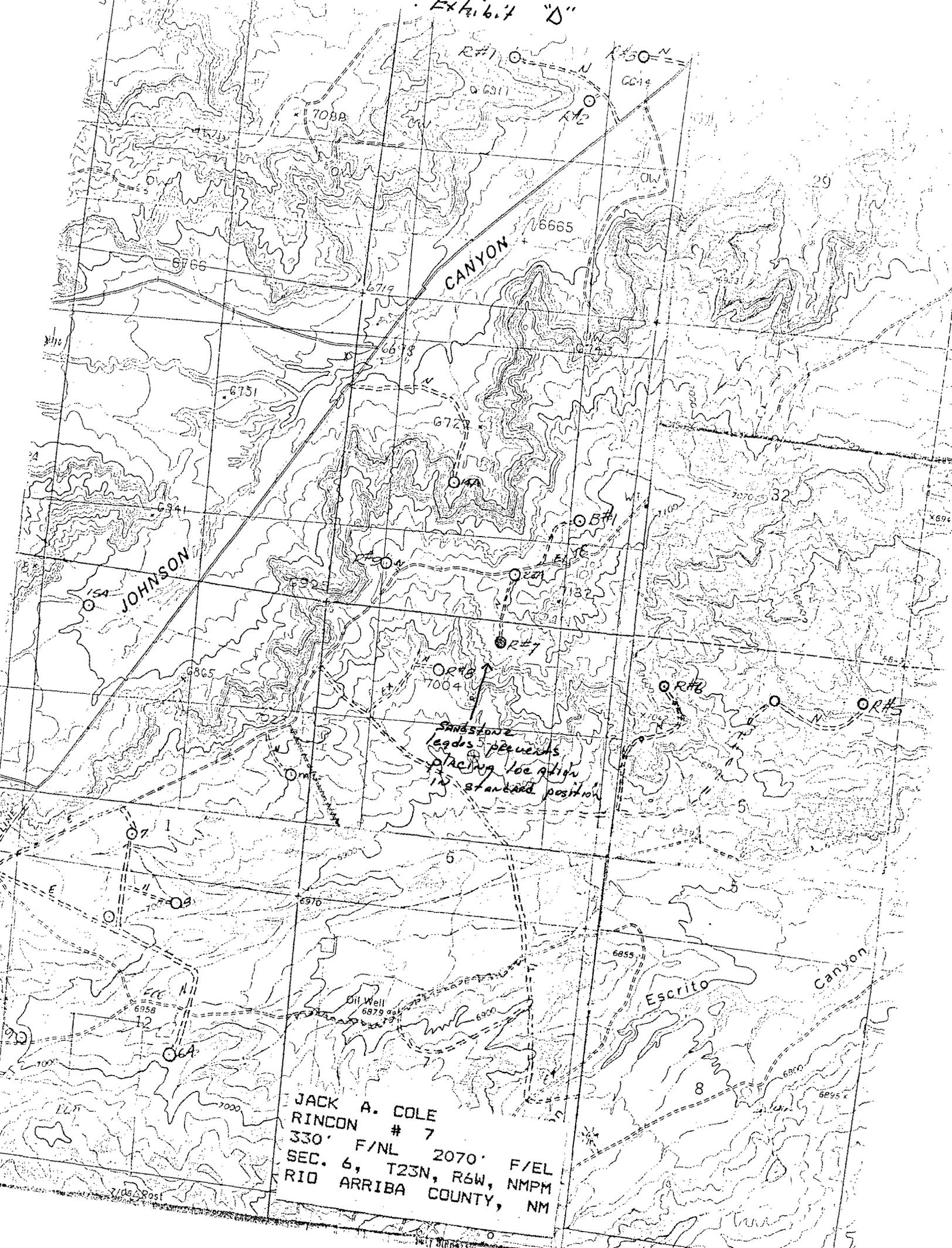
EXHIBIT "C"

OFF-SETTING OPERATORS

JACK A. COLE
 RINCON NO. 7
 330 FNL, 2070 FWL
 SEC. 6-T23N-R6W
 RIO ARriba COUNTY, NEW MEXICO

7W		6W		
36 McElvain		31 • Marcus A#22 • 845 FSL • 1960 FEL		NCRA 32 No producing wells
			• Rincon #7	24N 23N
1		• Marcus #5 • 1740 FNL • 720 FWL	6 • Marcus A#2 • 1980 FNL • 1980 FEL	• Marcus #4 • 1830 FNL • 750 FWL 5
12			7	8

Exhibit "D"



CANYON

JOHNSON

Escrito Canyon

SANDSTONE
ledges peculiar
placing location
in standard position

JACK A. COLE
RINCON # 7
330' F/NL 2070' F/EL
SEC. 6, T23N, R6W, NMPM
RIO ARRIBA COUNTY, NM

7/09/89

T. H. McELVAIN OIL & GAS PROPERTIES

T. H. McELVAIN, JR., MANAGER
220 SHELBY STREET
P. O. Box 2148

SANTA FE, NEW MEXICO 87504-2148

TELEPHONE 982-1995
AREA CODE 505

CATHERINE B. McELVAIN
CATHERINE M. HARVEY
T. H. McELVAIN, JR.

January 24, 1989



Mr. William J. LeMay, Director
State of New Mexico Oil
Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

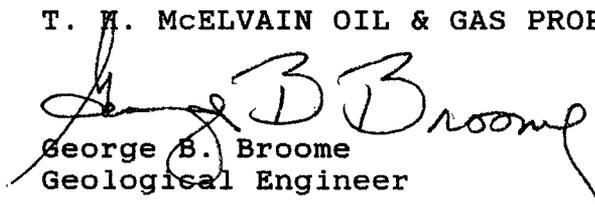
Re: Application by Jack A. Cole for
approval of an unorthodox oil
well location in the Counselors
Gallup Dakota Field

Dear Mr. LeMay:

T. H. McElvain Oil & Gas Properties, as an offset owner to the Jack A. Cole Rincon #7 unorthodox location 330' FNL and 2070' FEL in Section 6, Township 23 North, Range 6 West, Rio Arriba County, New Mexico, hereby waives its right to object to this unorthodox location.

Very truly yours,

T. H. McELVAIN OIL & GAS PROPERTIES


George B. Broome
Geological Engineer

rkf

pc: Cole Production Company



STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT

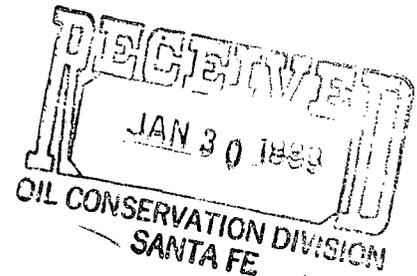
OIL CONSERVATION DIVISION
AZTEC DISTRICT OFFICE

1000 RIO BRAZOS ROAD
AZTEC, NEW MEXICO 87410
(505) 334-6170

OIL CONSERVATION DIVISION
BOX 2088
SANTA FE, NEW MEXICO 87501

DATE 1-26-87

RE: Proposed MC _____
Proposed DIIC _____
Proposed NSL A _____
Proposed SWD _____
Proposed WFX _____
Proposed PMX _____



Gentlemen:

I have examined the application dated 1-20-87
for the COLE PRODUCTION CO. RINCON #7 B-6-23N-6W
Operator Lease and Well No. Unit, S-T-R

and my recommendations are as follows:

Approve

Yours truly,

E. Busch

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7619
Order No. R-7034

APPLICATION OF MERRION OIL & GAS
CORP. FOR POOL CREATION AND SPECIAL
POOL RULES, RIO ARRIBA COUNTY,
NEW MEXICO.

See Also Order No. R-7034A

R-7034-B

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 9 a.m. on July 7, 1982, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 28th day of July, 1982, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

(1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) That the applicant, Merrion Oil and Gas Corp., seeks the creation of a new Gallup Pool to comprise Sections 3, 4, 8, 9, 10, 14, and 15, Township 23 North, Range 6 West, and the promulgation of special rules therefor including 160-acre spacing for oil and gas, Rio Arriba County, New Mexico.

(3) That the applicant is the operator of several wells within the proposed new Gallup pool.

(4) That the evidence presented established that the proposed pool is an oil pool.

(5) That the proposed Gallup oil pool was discovered by the Southern Union Exploration Company Yarborough Well No. 1 located in Unit J of Section 3, Township 23 North, Range 6 West, originally completed in the Gallup formation January 11, 1958, through perforations from 5540 to 5585.

(6) That all of the Gallup oil wells within the proposed pool and within most of the Gallup oil pools in the general area

are located as if 160-acre spacing units currently prevailed rather than the existing 40-acre spacing.

(7) That economic evidence presented relative to said wells showed that the average well in the general area expected to be completed in the proposed pool may be expected to be marginally profitable on 160-acre spacing.

(8) That there is insufficient engineering or geological evidence currently available upon which to base a finding that a well in the proposed pool will drain 160 acres.

(9) That creation of a new Gallup oil pool with temporary special pool rules providing for 160-acre proration units will permit operators to gather the engineering and geological data upon which to base such a determination while preventing the drilling of potentially unnecessary wells.

(10) That a new pool for Gallup oil production should be created, as requested by the applicant, to be designated as the Counselors-Gallup Oil Pool.

(11) That temporary special pool rules should be adopted for said Counselors-Gallup Oil Pool including provisions for 160-acre spacing and proration units.

(12) That this case should be reopened at an examiner hearing during August, 1985, at which time operators in said pool should appear and show cause why said pool should not be developed on spacing and proration units of less than 160 acres.

IT IS THEREFORE ORDERED:

(1) That a new pool for Gallup oil production is hereby created in Rio Arriba County, New Mexico, to be designated the Counselors-Gallup Oil Pool with vertical limits consisting of the Gallup formation and horizontal limits comprising the following described area:

TOWNSHIP 23 NORTH, RANGE 6 WEST, NMPM
Sections 3 and 4: All
Sections 8 through 10: All
Sections 14 and 15: All

(2) That the following temporary special pool rules are hereby adopted for said Counselors-Gallup Oil Pool:

TEMPORARY SPECIAL RULES AND REGULATIONS FOR THE
COUNSELORS-GALLUP OIL POOL

RULE 1. Each well completed or recompleted in the Counselors-Gallup Oil Pool or in the Gallup formation within one mile thereof and not nearer to or within the limits of another designated Gallup oil pool shall be spaced, drilled, operated and produced in accordance with the Special Rules and Regulations hereinafter set forth.

RULE 2. Each well shall be located on a standard unit containing 160 acres more or less substantially in the form of a square which is a quarter section being a legal subdivision of the United States' Public Land Surveys.

RULE 3. The Director of the Division may grant an exception to the requirements of Rule 2 without notice and hearing when an application has been filed for a non-standard unit consisting of less than 160 acres or the unorthodox size or shape of the tract is due to a variation in the legal subdivision of the United States' Public Land Surveys. All operators offsetting the proposed non-standard unit shall be notified of the application by registered or certified mail and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all offset operators or if no operator has entered an objection to the formation of the non-standard unit within 30 days after the Director has received the application.

RULE 4. Each well shall be located no nearer than 660 feet to the outer boundary of the proration unit nor nearer than 330 feet to any governmental quarter-quarter section line nor nearer than 1320 feet to the nearest well drilling to or capable of producing from the same pool.

RULE 5. The Director may grant an exception to the requirements of Rule 4 without notice and hearing when an application has been filed for an unorthodox location necessitated by topographical conditions or the recompletion of a well previously drilled to another horizon. All operators offsetting the proposed location shall be notified of the application by registered or certified mail and the application shall state that such notice has been furnished. The Director may approve the application upon receipt of written waivers from all operators offsetting the proposed location or if no objection to the unorthodox location has been entered within 20 days after the Director has received the application.

RULE 6. A standard proration unit (158 through 162 acres) shall be assigned a 160-acre depth bracket allowable in accordance with the statewide rules and in the event there is more than one well on a 160-acre proration unit the operator may produce the allowable assigned to the unit from the wells on the unit in any proportion.

The allowable assigned to a non-standard proration unit shall bear the same ratio to a standard allowable as the acreage in such non-standard unit bears to 160 acres.

RULE 7. A limiting gas-oil ratio of 2000 cubic feet of gas per barrel of oil is established for the pool.

IT IS FURTHER ORDERED:

(1) That the location of all wells presently drilling to or completed in the Counselors-Gallup Oil Pool shall be approved; the operator of any well having an unorthodox location shall notify the Aztec Office of the Division in writing of the name and location of the well on or before October 1, 1982.

(2) That, pursuant to Paragraph A. of Section 70-2-18, NMSA 1978 Comp., existing wells in the Counselors-Gallup Oil Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C. of said Section 70-2-18, existing wells may have non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable. Until said Form C-102 has been filed or until a non-standard unit has been approved, and subject to said 60-day limitation, each well presently drilling to or completed in the Counselors-Gallup Oil Pool or in the Gallup formation within one mile thereof shall receive no more than one-half of a standard allowable for the pool.

(3) That this case shall be reopened at an examiner hearing during the month of August, 1985, at which time the operators in the Counselors-Gallup Oil Pool may appear and show cause why said pool should not be developed on less than 160-acre spacing with a depth bracket allowable in accordance with the statewide rules.

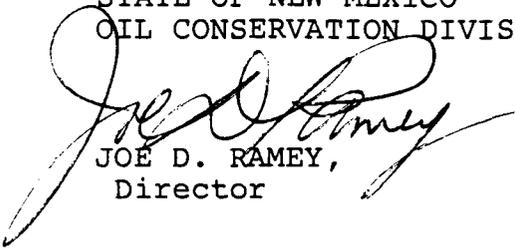
Case No. 7619
Order No. R-7034

(4) That the effective date of this order and the pool creation and special rules contained herein shall be August 1, 1982.

(5) That 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



JOE D. RAMEY,
Director

S E A L

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 8153
Order No. R-7034-A

APPLICATION OF MERRION OIL AND
GAS CORPORATION FOR THE EXTENSION
OF VERTICAL LIMITS, RIO ARRIBA
COUNTY, NEW MEXICO.

See Also Order No. R-7034

R-7034-B

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on April 11, 1984, at Santa Fe, New Mexico, before Examiner Richard L. Stamets.

NOW, on this 20th day of April, 1984, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS:

- (1) That due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) That the applicant, Merrion Oil and Gas Corporation, seeks the extension of the vertical limits of the Counselors Gallup Oil Pool to include the Dakota formation in Township 23 North, Range 6 West, NMPM, Rio Arriba County, New Mexico, and for the redesignation of this pool as the Counselors Gallup-Dakota Oil Pool.
- (3) That by Order No. R-7034 dated July 28, 1982, the Division created the Counselors-Gallup Oil Pool in Rio Arriba County, New Mexico.
- (4) That said order further established temporary special rules for said pool including provisions for 160-acre oil spacing units.
- (5) That said order also provided that the matter of the special pool rules would be reopened at an examiner hearing during August, 1985, at which time the operators in said pool

are to appear and show cause why it should not be developed on less than 160-acre spacing units.

(6) That the applicant now seeks to extend the vertical limits of said pool to include the Dakota formation.

(7) That the evidence currently available indicates that the Dakota formation may also be efficiently and economically developed in this area on 160-acre spacing units as a part of the vertical limits of said pool.

(8) That the vertical limits of the Counselors-Gallup Oil Pool should be extended to include the Dakota formation and said pool should be redesignated the Counselors Gallup-Dakota Oil Pool.

(9) That Rule 1 of said special pool rules should be amended to reflect this change in pool vertical limits.

IT IS THEREFORE ORDERED:

(1) That the vertical limits of the Counselors-Gallup Oil Pool are hereby extended to include the Dakota Formation and the pool is redesignated the Counselors Gallup-Dakota Oil Pool.

(2) That the Temporary Special Rules and Regulations for the Counselors-Gallup Oil Pool established under Division Order No. R-7034 are hereafter made applicable to said Counselors Gallup-Dakota Oil Pool.

(3) That Rule 1 of said Temporary Special Pool Rules is hereby amended to read in its entirety as follows:

"RULE 1. Each well completed or recompleted in the Counselors Gallup-Dakota Oil Pool or in the Gallup-Dakota formation within one mile thereof and not nearer to or within the limits of another designated Gallup-Dakota oil pool shall be spaced, drilled, operated and produced in accordance with the Special Rules and Regulations hereinafter set forth."

IT IS FURTHER ORDERED:

(1) That, pursuant to Paragraph A of Section 70-2-18, NMSA, 1978 Comp., existing Dakota wells in the Counselors Gallup-Dakota Oil Pool shall have dedicated thereto 160 acres in accordance with the foregoing pool rules; or, pursuant to Paragraph C of said Section 70-2-18, existing wells may have

non-standard spacing or proration units established by the Division and dedicated thereto.

Failure to file new Forms C-102 with the Division dedicating 160 acres to a well or to obtain a non-standard unit approved by the Division within 60 days from the date of this order shall subject the well to cancellation of allowable.

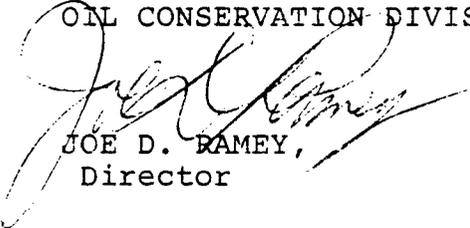
(2) That this case shall be reopened at an examiner hearing during the month of August, 1985, at which time the operators in the Counselors Gallup-Dakota Oil Pool may appear and show cause why said pool should not be developed on less than 160-acre spacing with a depth bracket allowable in accordance with the statewide rules.

(3) That the effective date of this order and the extension of the pool vertical limits contained herein shall be May 1, 1984.

(4) That 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


JOE D. RAMEY,
Director

S E A L

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 7619
CASE NO. 8153
Order No. R-7034-B

IN THE MATTER OF CASES NOS. 7619 AND
8153 BEING REOPENED ON THE MOTION OF
THE OIL CONSERVATION DIVISION PURSUANT
TO THE PROVISIONS OF ORDERS NOS. R-7034
AND R-7034-A, SAN JUAN COUNTY, NEW MEXICO.

See Also Orders Nos.

R-7034

R-7034-A

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8 a.m. on August 14, 1985, and at 8:00 a.m. on October 9, 1985, at Santa Fe, New Mexico, before Examiner Gilbert P. Quintana.

NOW, on this 16th day of January, 1986, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The Division, by its Order No. R-7034 entered July 28, 1982, in Case No. 7619, created the Counselors-Gallup Oil Pool, San Juan County, New Mexico, and promulgated temporary Special Pool Rules therefor, including a provision for 160-acre spacing and proration units.
- (3) The Division, by its Order No. R-7034-A entered April 20, 1984, in Case No. 8153, extended the vertical limits of said Counselors-Gallup Oil Pool to include the Dakota formation and redesignated said pool the Counselors Gallup-Dakota Oil Pool.
- (4) Pursuant to the provisions of said Orders Nos. R-7034 and R-7034-A, these cases were reopened to permit operators in

Case No. 7619
Case No. 8153
Order No. R-7034-B

the subject pool to appear and show cause why said pool should not be developed on less than 160-acre spacing.

(5) The main pay zones in the subject pool, in the Gallup formation, are continuous and correlative from the Northwest end of the pool to the Southeast end.

(6) The evidence presented demonstrates that under the present 160-acre spacing, there has been effective and efficient drainage and pressure depletion in the Counselors Gallup-Dakota Oil Pool, particularly in the Gallup formation.

(7) According to the evidence, the Dakota formation, although lacking the porosity and permeability of the Gallup formation, and not economically viable on its own as a single formation, does contribute reserves to those wells which are completed in both the Gallup and Dakota formations, and should continue to be included in the vertical limits of the subject pool.

(8) According to the evidence, the Counselors Gallup-Dakota Oil Pool is being effectively and efficiently drained on 160-acre spacing and proration units, and the Temporary Special Rules for said pool as promulgated by Division Orders Nos. R-7034 and R-7034-A should be made permanent.

(9) Making such orders permanent is in the interest of conservation and will protect correlative rights and prevent waste.

IT IS THEREFORE ORDERED THAT:

(1) The Temporary Special Rules for the Counselors Gallup-Dakota Oil Pool promulgated by Division Order No. R-7034 are hereby made permanent and shall continue in full force and effect until further order of the Division.

(2) The consolidation of the Gallup formation and the Dakota formation into the vertical limits of the Counselors Oil Pool and designation of said pool as the Counselors Gallup-Dakota Oil Pool by Division Order No. R-7034-A is hereby made permanent and shall continue in full force and effect until further order of the Division.

(3) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

-3-

Case No. 7619
Case No. 8153
Order No. R-7034-B

DONE at Santa Fe, New Mexico, on the day and year
hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION


R. L. STAMETS,
Director

S E A L