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NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

January 13, 2004

Lori Wrotenbery
Director

Oil Conservation Division

Burlington Resources Oil & Gas Company, L.P.
P. O. Box 4289
Farmington, New Mexico 87499-4289

P. MESO -
335056107

Attention: Joni Clark, Regulatory Specialist

Re: San Juan "29-7" Unit Well No. 188
1030' FNL & 900' FWL (Lot 10/Unit C) Sec. 6, T29N, R7W, NMPM, Rio Arriba County
API No. 30-039-27441

Dear Ms. Clark:

Reference is hereby made to your application dated December 12, 2004 for:

(A) an exception to the spacing requirements of Division Rule 104.C (3) in order to create a non-standard 215.22-acre gas spacing unit in the Blanco-Pictured Cliffs Pool (72359) comprising Lots 10, 11, 12, 13, and 14, the SE/4 NW/4, and the E/2 SW/4 (W/2 equivalent) of Irregular Section 6, Township 29 North, Range 7 West, NMPM, Rio Arriba County, New Mexico;

(B) an exception to Division Rule 104.D (3) in order to simultaneously dedicate Pictured Cliffs gas production from the unprorated Blanco-Pictured Cliffs Pool within this proposed 215.22-acre non-standard gas spacing unit from its existing: (i) San Juan "29-7" Unit Well No. 583 (API No. 30-039-25260), located at a standard gas well location 1850 feet from the South line and 790 feet from the West line (Unit K) of Irregular Section 6; and (ii) its proposed San Juan "29-7" Unit Well No. 188 (API No. 30-039-27441), to be drilled at a standard gas well location 1030 feet from the North line and 900 feet from the West line (Lot 10/Unit C) of Irregular Section 6; and

(C) the suspension of that portion of Division Order No. R-9880, issued in Case No. 10699 on April 21, 1993, as amended by Division Order No. R-9880-A, dated June 4, 1993, that established a non-standard 110.66-acre gas spacing unit in the Blanco-Pictured Cliffs Pool comprising Lots 13 and 14 and the E/2 SW/4 (SW/4 equivalent) of Irregular Section 6 for the above-described San Juan "29-7" Unit Well No. 583.

The Blanco-Pictured Cliffs Pool, being unprorated, is not subject to Part H of the Division's statewide rules entitled "*Gas Proration and Allocation*" (Rules 601 through 605); however, this pool is currently governed by Division Rules 104.C (3) and D (3), which requires the following:

(i) that gas wells developed on 160-acre spacing are to be located in a designated drilling tract consisting of 160 surface contiguous acres, more or less, substantially in the form of a square which is a quarter section, being a legal subdivision of the U.S. Public Land Surveys;

- (ii) for such wells to be located not closer than 660 feet to any outer boundary of such tract nor closer than 10 feet to any quarter-quarter section or subdivision inner boundary; and
- (iii) precludes the drilling, recompletion, and production of a second gas well within a single gas spacing unit.

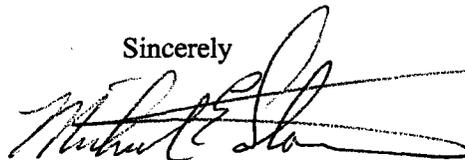
Your proposed 215.22-acre non-standard unit (W/2 equivalent of Irregular Section 6) only serves to combine the aforementioned existing non-standard Pictured Cliffs 110.66-acre gas spacing unit (SW/4 equivalent of Irregular Section 6) and the 104.56 acres comprising the NW/4 equivalent of Irregular Section 6. The proposed unit of course does not conform to the "quarter section" requirements of 104.C (3). The requests for the formation of such a unit in an unprorated pool and the simulations dedication of wells are matters beyond administrative review of Division Rule 104.D (2) (b) and (3). Furthermore, Burlington Resources Oil & Gas Company, L.P.'s ("Burlington") rationale for the formation of this unit, which is "for accounting purposes", is not a viable or acceptable reason to seek such an exception to the State's spacing requirements. Your application is therefore **denied** and is being returned to you at this time.

As a reminder the State's spacing rules is a serious matter for the purpose of orderly development of New Mexico's valuable oil and gas resources and for the additional purpose of protecting correlative rights and preventing waste. It is very easy to get into a mode of thinking that considers these rules as minor inconveniences and applications for minor exceptions as "open and shut" issues without so much as a thought about the setting of precedence by the issuance of a frivolous exception by the Division.

NOW not to discourage Burlington from developing its Pictured Cliffs reserves underlying the NW/4 equivalent of Irregular Section 6, I suggest you consider a more reasonable, common sense approach by re-filing to form a non-standard 104.56-acre gas spacing unit, being 0.65 % the size of a standard 160-acre unit, that comprises Lots 10, 11, and 12 and the SE/4 NW/4 (NW/4 equivalent) of Irregular Section 6 under the provisions of Rule 104.D (2) (c).

Once you have read this letter and reviewed all the rules mentioned; should you have any questions, I suggest you contact your legal counsel, Mr. W. Thomas Kellahin in Santa Fe at (505) 982-4285 for a detailed explanation of New Mexico's conservation rules with respect to spacing and the formation of "units". Thank you for your understanding and cooperation and Burlington's continued support in making New Mexico's conservation rules a meaningful success.

Sincerely



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington
W. Thomas Kellahin, Legal Counsel for Burlington Resources Oil & Gas Company, L.P. - Santa Fe