



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
BETTY RIVERA
Cabinet Secretary

Lori Wrotenbery
Director
Oil Conservation Division

September 13, 2002

CDX Rockies, L.L.C.
c/o Holland & Hart LLP
P. O. Box 2208
Santa Fe, New Mexico 87504-2208
Attention: William F. Carr

Telefax No. (505) 983-6043

Administrative Order NSL-4778
(Non-Standard Subsurface Location/Producing Area)

Dear Mr. Carr:

Reference is made to the following: (i) your application on behalf of the operator, CDX Rockies, L.L.C. ("CDX") submitted to the New Mexico Oil Conservation Division ("Division") on August 14, 2002 (*application reference No. pKRV0-223139765*); (ii) the Division's records in Aztec and Santa Fe; (iii) CDX's meeting with you and Mr. Michael E. Stogner, Engineer/Chief Hearing Officer with the Division, in Santa Fe on July 31, 2002; and (iv) your most recent telephone conversation with Mr. Stogner concerning this application: all pertaining to CDX's request for exception to Rule 7 of the "*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*," as promulgated by Division Order No. R-8768, as amended, and pursuant to Division Rules 111.A (13) and 111.C (2) and Basin-Fruitland coal gas Rules 8 and 9, in order to initiate a horizontal/high angle directional drilling project [as defined by Division Rule 111.A (9)].

The Division Director Finds That:

- (1) The subject application has been duly filed under the provisions of Division Rule 111.C (2) and the applicable provisions of the special rules governing the Basin-Fruitland Coal (Gas) Pool (71629);
- (2) The Basin-Fruitland Coal (Gas) Pool is an "unprorated gas pool" not subject to Part H of the Division's rules entitled "*Gas Proration and Allocation*" (Rules 601 through 605). However, the Basin-Fruitland Coal (Gas) Pool is subject to: (a) Division Rule 104.D (3), which restricts the number of producing wells within a single gas spacing unit within non-prorated gas pools to only one (see official notice to all operators issued by the Division Director on October 25, 1999), and allows producing wells within this pool to produce at capacity; and (b) the "*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*," established by Division Order No. R-8768, as amended by Orders No. R-8768-A and R-8768-B, which rules provide for:

- (i) 320-acre spacing units (Rule 4);
 - (ii) wells to be located in the NE/4 or SW/4 of a single governmental section and no closer than 660 feet to the outer boundary of the spacing unit nor closer than 10 feet to any interior quarter or quarter-quarter section line or subdivision inner boundary (Rule 7); and
 - (iii) infill wells only after notice and hearing (Rule 4).
- (3) CDX's proposed 640-acre "project area", comprising all of Section 33, Township 29 North, Range 8 West, NMPM, San Juan County, New Mexico, will be created by combining two standard 320-acre stand-up gas spacing units currently existing within Section 33;
- (4) The E/2 of Section 33 is currently dedicated to KUKUI Operating Company's ("KUKUI") Hughes "A" Well No. 17 (API No. 30-045-27936), which was drilled to and completed in the Basin-Fruitland Coal (Gas) Pool in 1990 by McKenzie Methane Corporation ("McKenzie") at a standard coal gas well location 920 feet from the North line and 1620 feet from the East line (Unit B) of Section 33;
- (5) The W/2 of Section 33 is currently dedicated to KUKUI's Hughes "33-M" Well No. 3 (API No. 30-045-28413), was also drilled to and completed in the Basin-Fruitland Coal (Gas) Pool by McKenzie in 1990 at a standard coal gas well location 1070 feet from the South line and 1070 feet from the West line (Unit M) of Section 33;
- (6) It is our understanding that CDX proposes to initiate a multi-lateral horizontal directional drilling project through its: (i) B. W. Federal "33-29-8" Well No. 102, which is to be the designated producing well drilled on the surface at a standard coal gas well location 748 feet from the North line and 660 feet from the East line (Unit A) of Section 33; and (ii) B. W. Federal "33-29-8" Well No. 202, which will initially serve as the horizontal drilling service well and later as a pressure observation well, is to be drilled on the surface at a location 463 feet from the North line and 369 feet from the East line (Unit A) of Section 33;
- (7) It is further understood that CDX will initially drill its B. W. Federal "33-29-8" Well No. 202 vertically to an approximate depth of 2,710 feet, kick-off in a southwesterly direction, build a curve until a 90-degree angle is achieved at a true vertical depth of approximately 2,920 feet, casing will then be set in the hole, horizontal drilling will

commence whereby the vertically drilled B. W. Federal "33-29-8" Well No. 102 will be intersected, the horizontal drainhole will then be extended a lateral distance of approximately 5510 feet into the SW/4 SW/4 (Unit M) of Section 33;

- (8) Additional lateral drainholes will then be drilled off of this initial horizontal drainhole;
- (9) Once the drilling of all multi-lateral drainholes is accomplished, the B. W. Federal "33-29-8" Well No. 102 will be completed such that it will serve as the producing wellbore;
- (10) The applicable drilling window or "producing area" within the Basin-Fruitland Coal (Gas) Pool for this multi-lateral directional drilling project is to be confined to that area within the assigned 640-acre project area, comprising all of Section 33, that is no closer than 660 feet to the outer boundary of the project area;
- (11) It appears that the applicant has satisfied all of the appropriate requirements prescribed in Division Rule 111.C (2) and Rules 8 and 9 (B) of the Basin-Fruitland coal gas special pool rules; therefore, the subject application should be approved; and
- (12) The provisions contained within this order and all other applicable provisions of Division Rules 104.D (3) and 111 and Division Order No. R-8768, as amended, shall serve to govern the subject wells and 640-acre horizontal/high angle directional drilling project area.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Rules 8 and 9 (B) of the "*Special Rules and Regulations for the Basin-Fruitland Coal (Gas) Pool*," as promulgated by Division Order No. R-8768, as amended, the application of CDX Rockies, L.L.C. ("CDX") for exception to Rule 7 of the special pool rules governing the Basin-Fruitland Coal (Gas) Pool (71629), is hereby approved. CDX is hereby authorized to initiate a horizontal/high angle directional drilling project [as defined by Division Rule 111.A (9)] within a 640-acre area comprising all of Section 33, Township 29 North, Range 8 West, NMPM, San Juan County, New Mexico ("project area"), in which its proposed B. W. Federal "33-29-8" Well No. 102, as described in Finding Paragraph No. (6) above, will eventually be dedicated.

(2) The applicable drilling window or "producing area" within the Basin-Fruitland Coal (Gas) Pool for this multi-lateral directional drilling project is to be confined to that area within the subject 640-acre project area, comprising all of Section 33, that is no closer than 660 feet to the outer

boundary of the project area.

(3) The operator shall comply with all applicable requirements and conditions set forth in Division Rule 111 and Rule 9 of Division Order No. R-8768, as amended.

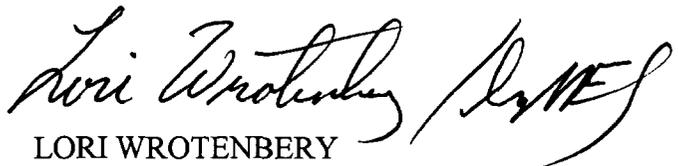
It Is Further Ordered That:

(4) Once the drilling of all multi-lateral drainholes is accomplished and the B. W. Federal "33-29-8" Well No. 102 is completed and ready to produce (see Finding Paragraphs No. 6, 7, and 8 above); KUKUI Operating Company must cease producing both its Hughes "A" Well No. 17 and Hughes "33-M" Well No. 3, as described respectively in Finding Paragraphs No. (4) and (5) above.

(5) Jurisdiction of this case 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


LORI WROTENBERY
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Farmington