



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

OCID-Artesia

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Gruy Petroleum Management Co.

P. O. Box 140907

Irving, Texas 75014-0907

June 17, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Telefax No. (972) 443-6450

RECEIVED

JUN 24 2004

OCID-ARTESIA

Attention: Zeno Farris

Administrative Order NSL-5078 (SD)

Dear Mr. Farris:

Reference is made to the following: (i) your application for an unorthodox oil well location (***administrative application reference No. pMES0-415657356***) submitted by letter to the New Mexico Oil Conservation Division ("Division") on May 28, 2004; and (ii) the Division's records in Santa Fe: all concerning Gruy Petroleum Management Co.'s ("Gruy") request for an exception to Rule 4 of the "***Special Pool Rules for the Shugart-Strawn Pool***," as promulgated by Division Order No. R-11856, as amended, for the existing Magnum "5" Federal Com. Well No. 4 (API No. **30-015-33116**), which well was recently drilled to a depth of 11,950 feet in order to test the Morrow formation underlying a standard 320.04-acre stand-up gas spacing unit within the North Shugart-Morrow Gas Pool (**85305**) comprising Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 5, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, at a standard deep infill gas well location, pursuant to Division Rule 104.C (2) (b), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, 1980 feet from the South line and 1190 feet from the East line (Unit I) of Section 5.

This application has been duly filed under the provisions of: (i) Rule 5 of the "***Special Pool Rules for the Shugart-Strawn Pool***"; (ii) Division Rule 104.F, as revised; and (iii) Rule 1207.A (2), revised by Division Order No. R-11205, issued by the Commission in Case No. 12177 on June 17, 1999.

After reviewing your application and the Division's records, it is our understanding that Gruy permitted this well primarily as an infill deep Morrow gas well within the aforementioned 320.04-acre unit [see the U. S. Bureau of Land Management Form 3160-3, "***Application for Permit to Drill (APD)***"] for this well dated October 28, 2003]. As shown on an attachment to this APD, Gruy listed the Strawn as a possible oil bearing formation to be encountered by this wellbore. The well was subsequently spud on January 3, 2004 and total depth was reached on February 12, 2004. It is further understood that Gruy intends to complete this well as a second infill-oil well within an existing 160-acre standard oil spacing and proration unit for the Shugart-Strawn Pool (**97239**) comprising the SE/4 of Section 5; however, pursuant to Rule 4 of the special rules governing the Shugart-Strawn Pool, the location is considered to be "unorthodox".

June 17, 2004

Page 2

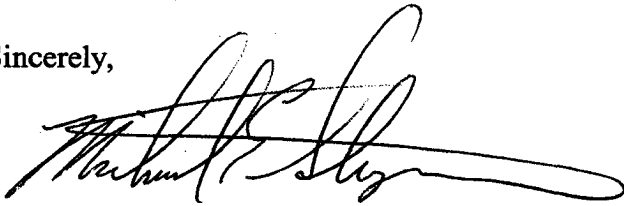
This 160-acre Strawn oil unit is currently dedicated to Gruy's: (i) Magnum "5" Federal Com. Well No. 2 (**API No. 30-015-31570**), located at a standard oil well location 660 feet from the South line and 1650 feet from the East line (Unit O) of Section 5; and (ii) Magnum "5" Federal Com. Well No. 3 (**API No. 30-015-32651**), located at a standard oil well location 660 feet from the South line and 710 feet from the East line (Unit P) of Section 5.

By the authority granted me under the applicable provisions of the special rules governing the Shugart-Strawn Pool and Division Rule 104.F (2), as revised, the above-described unorthodox Strawn infill oil well location is hereby approved.

Further, all three of the aforementioned Magnum "5" Federal Com. Wells No. 2, 3, and 4, and existing 160-acre unit will be subject to all existing rules, regulations, policies, and procedures applicable to Shugart-Strawn Pool.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal flourish extending to the right.

Michael E. Stogner
Engineer/Hearing Officer

MES/ms

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad