



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

July 27, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Gruy Petroleum Management Company

c/o **James Bruce**

P. O. Box 1056

Santa Fe, New Mexico 87504-1056

30-015-34214

Administrative Order NSL-5229-A (BHL)

Dear Mr. Bruce:

Reference is made to the following: (i) your application on behalf of the operator, Gruy Petroleum Management Company ("GPMC") that was submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on July 1, 2005 (*administrative application reference No. pSEM0-518235415*); and (ii) the Division's records in Santa Fe, including the file on Division Administrative Order NSL-5229: all concerning GPMC's second request for an unorthodox (subsurface) gas well location within a standard 314.82-acre lay-down gas spacing unit pursuant to Division Rule 104 C (2) comprising Lots 3 and 4, the E/2 SW/4 and the SE/4 (S/2 equivalent) of Section 19, Township 17 South, Range 30 East, NMPM, Eddy County, New Mexico, for the deeper Undesignated Sand Tank-Morrow Gas Pool (84872), Undesignated Grayburg-Morrow Gas Pool (778400), or Undesignated South Loco Hills-Morrow Gas Pool (80360), and shallower Atoka formation, if gas production from either interval is not subsequently placed in the Anderson-Pennsylvanian Gas Pool (70200).

This application has been duly filed under the provisions of Division Rules 104.F, 1207.A (2), and 111.C (2).

It is the Division's understanding that GPMC intends to directionally drill its Grayburg Deep Unit Well No. 17 from a surface location 1990 feet from the South line and 445 feet from the West line (Lot 3/Unit L) of Section 19 to a targeted bottomhole location 2300 feet from the South line and 660 feet from the West line (Lot 3/Unit L) of Section 19. It is further understood the expected penetration points for the: (i) Atoka formation will be at a depth of 10,500 feet at a subsurface location 2087 feet from the South line and 523 feet from the West line (Lot 3/Unit L) of section 19; and (ii) Morrow formation will be at a depth of 10,700 feet at a subsurface location 2150 feet from the South line and 552 feet from the West line (Lot 3/Unit L) of section 19.

It is the Division's understanding that GPMC is seeking this location exception based on: (i) geological considerations, which indicate that a well drilled at the proposed unorthodox gas well location will be at a more favorable geologic position within the deeper Morrow interval than a well drilled at a location considered to be standard within the SW/4 equivalent of Section 19; and (ii) topographic conditions that further restrict surface locations within Unit "L" of Section 19.

Gruy Petroleum Management Company
Division Administrative Order NSL-5229-A (BHL)

June 8, 2005

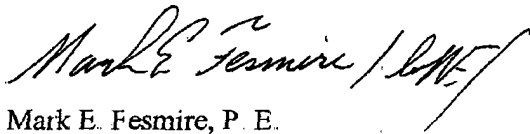
Page 2

In accordance with Division Rules 111.A (7), 111.C (3), and 104.F (2) the planned directional drilling to the above-described subsurface gas well locations for GPMC's proposed Grayburg Deep Unit Well No. 17 within both the Atoka and Morrow formations underlying the S/2 equivalent of Section 19 is hereby approved.

Further, GPMC shall comply with all provisions of Division Rule 111 applicable in this matter.

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Artesia
U. S. Bureau of Land Management – Carlsbad
File: NSL-5229