



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 2, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

**Chevron U.S.A., Inc.
15 Smith Road
Midland, Texas 79705**

Attention: Mike Howell
MAHO@chevrontexaco.com

Administrative Order NSL-5063 (SD)

Dear Mr. Howell:

Reference is made to the following: (i) your application (*administrative application reference No. pSEM0-413440719*) submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe on May 12, 2004; and (ii) the Division's records: all concerning Chevron U.S.A., Inc.'s ("Chevron") request for an unorthodox "infill" oil well location within an existing standard 40-acre oil spacing and proration unit comprising the NE/4 SW/4 (Unit K) of Section 20, Township 21 South, Range 37 East, NMPM, Penrose Skelly (Grayburg) Pool (50350), Lea County, New Mexico.

This application has been duly filed under the provisions of Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999.

This 40-acre Grayburg unit is currently dedicated to Chevron's C. L. Hardy Well No. 3 (API No. 30-025-06686) located at a standard oil well location 1980 feet from the South and West lines of Section 20.

It is the Division's understanding that the SW/4 of Section 20 comprises a single fee lease (C. L. Hardy lease) with common mineral interest in which Chevron is the leasehold operator; therefore, there are no adversely effected offsets to the subject 40-acre tract within the Grayburg interval.

It is further understood that such unorthodox location is necessitated for geologic and engineering reasons in that this location is approximately equidistance to other offsetting Penrose Skelly (Grayburg) oil wells within the C. L. Hardy fee lease. The proposed infill oil well location will enable Chevron to further develop and deplete the Grayburg reserves within this lease that might not otherwise be recovered.

By the authority granted me under the provisions of Division Rule 104.F (2), the following described well to be drilled at an unorthodox "infill" oil well location within the NE/4 SW/4 (Unit K) of Section 20 is hereby approved:

**C. L. Hardy Well No. 6
1345' FSNL & 1385' FWL.**

Chevron U.S.A., Inc.

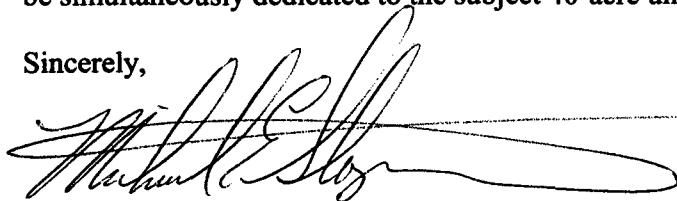
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Further, both the existing C. L. Hardy Well No. 3 and the proposed C. L. Hardy Well No. 6 are to be simultaneously dedicated to the subject 40-acre unit.

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

MS/mes

cc: New Mexico Oil Conservation Division – Hobbs