



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Padilla Law Firm, P. A.

Attn: Ernest L. Padilla

P. O. Box 2523

Santa Fe, New Mexico 87504-2523

June 8, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Telefax No. (505) 988-7592

Gallegos Law Firm

Attn: J. E. Gallegos

460 St. Michael's Drive – Building 300

Santa Fe, New Mexico 87505

Telefax No. (505) 986-1367

Re: *Division Case No. 13277: Application of Fulfer Oil & Cattle Co. to rescind Division Administrative Order NSP-1871 (administrative reinstatement of Division Order No. R-479), dated April 12, 2004, issued to Yarbrough Oil, L.P. for its E. L. Steeler Well No. 4 (API No. 30-025-10786), located at a standard Jalmat gas well location 8609 feet from the South line and 660 feet from the West line (Unit M) of Section 17, Township 23 South, Range 37 East, NMPM, Jalmat Gas Pool (79240), Lea County, New Mexico, to be dedicated to the previously approved 160-acre non-standard gas spacing unit comprising the N/2 SW/4, SW/4 SW/4, and NW/4 SE/4 of Section 17.*

Dear Messrs. Padilla and Gallegos:

Reference is made to the following: (i) my e-mail of Tuesday, May 25, 2004 with a draft "**Division Memorandum - Examiner's Rule Interpretation**" attached; (ii) Mr. Padilla's response by e-mail on May 25th; and (iii) my conversation with Mr. Gallegos in the Division's Santa Fe office on Thursday, May 27, 2004. Attached, please find a copy of the Division's Memorandum dated June 8, 2004, "Examiner's Rule Interpretation" for the Jalmat (79240) and Eumont (76480) Gas Pools in Lea County, New Mexico, which addresses the restoration of previously approved non-standard gas spacing and proration units. This memo will be posted on the Division's web-site under "*what's new*."

Unless the Division receives motions to the contrary, Division Case No. 13277 will be dismissed and Division Administrative Order NSP-1871 will remain in full force and affect. Thank you for your cooperation and patience in this matter.

Sincerely;

Michael E. Stogner

Engineer/Hearing Officer

cc: New Mexico Oil Conservation Division - Hobbs
Case File 13277
Division Administrative Order NSP-1871
Ms. Florene Davidson, Staff Specialist – NMOCD, Santa Fe



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— MEMORANDUM — EXAMINER'S RULE INTERPRETATION

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

TO: All Jalmat and Eumont Oil and Gas Operators.

FROM: Michael E. Stogner, Chief Hearing Examiner/Engineer (OCD). *MS.*

SUBJECT: The restoration of previously authorized/established non-standard gas spacing units within the Jalmat (79240) and Eumont (76480) Gas Pools under the provisions of Rules 4 (C) of the "*Special Pool Rules for the Jalmat Gas Pool*" and "*Special Pool Rules for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 4, 2001.

DATE: June 8, 2004.

Development of the Eumont and Jalmat Gas Pools commenced in the early 1950's under a gas prorationing system based on acreage and a considerable number of non-standard gas spacing and proration units were routinely approved under special rules governing both pools applicable at the time.

By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Jalmat and Eumont Gas Pools and promulgated special pool rules that provide for: (i) oil development on standard 40-acre oil spacing units [Rule 2 (B)] and gas development on standard 640-acre gas spacing units [Rule 2 (A)]; (ii) gas development on a well density based on one well per 160 acres [Rules 3 (C) and (D)]; (iii) gas well locations to be no closer than 660 feet to any outer boundary of the assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line [Rule (A) (2)]; and (iv) administrative exceptions, in most cases, to these rules (Rule 4) with notification, including the formation of non-standard gas spacing units [Rule 4 (C) (1)]. The special pool rules prohibit: (i) the simultaneous dedication of acreage committed to a gas well in either the Jalmat or Eumont Gas Pool to an oil well [Rule 2 (C)]; and (ii) a gas well density greater than one Jalmat or Eumont well per quarter-quarter section [Rule 3 (D)]. The special pool rules further provided that all existing rule exceptions, whether granted administratively or through hearing, in effect on the issuance date of Division Order No. R-8170-P, be "grandfathered" [Rule 6 (B)].

Earlier this year, the Division restored two previously authorized 160-acre non-standard spacing units in these pools that had not produced for some time and/or where the previous dedicated well or wells had been abandoned [see AMENDED Administrative Order NSP-1435, dated March 30, 2004, and Administrative Order NSP-1871 (Administrative Reinstatement of Division Order No. R-479) dated April 12, 2004]. In each case only one well was to be dedicated to the restored unit, which complied with the well density provisions in both pools and each well location was standard. Both restored units were at the request of the operator in the form of abbreviated applications and were issued Administrative Orders; however, notification under special Rule 4 (D) was not provided nor asked for by the Division's examiner.

After reassessing its practice for processing such request and the spirit in which the Division Order No. R-8170-P was issued, the Division has determined that in the best interest of conservation and to assure that correlative rights are protected, the same procedure required under special Rule 4 (C) in establishing non-standard spacing units within the Jalmat and Eumont Gas Pools must be followed when restoring previously established spacing and proration units that are no longer active.