

KELLAHIN & KELLAHIN
Attorney at Law



W. Thomas Kellahin
Recognized Specialist in the Area of
Natural Resources-oil and gas law-
New Mexico Board of Legal Specialization

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July 22, 2004

HAND DELIVERED

Mr. Michael E. Stogner
Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, New Mexico 87505

Re: NMOCD Administrative Application of
Citation Oil & Gas Corp. to amended
Division Administrative Order NSP-488 and
for an exception to Order R-8170-P,
Eumont Gas Pool, Lea County, New Mexico

2004 JUL 22 PM 12 27

Dear Mr. Stogner:

By letter dated May 24, 2004, Citation Oil & Gas Corp. ("Citation") filed an administrative application which, if granted, will result in the addition of 2 Eumont gas wells to the 6 existing gas wells in the E/2 of Section 20, T21S, R36E, Lea County such that there will be 1 gas well in each of the 40-acre tracts of this non-standard 320-acre GPU.

On July 13, 2004, we discussed this application and you granted my request made on behalf of Citation for a 10-day extension for Citation to file supplemental evidence in supporting of this application on or before July 23, 2004. Accordingly, on behalf of Citation, I have the following:

**CURRENT STATUS OF WELLS
WITHIN THIS GPU**

The existing wells in the E/2 of Section 20 are as follows:

(1) Unit A:

- a. Devonian State Well No. 3
 - i. API 30-025-04730
 - ii. Located 660 feet FNL and 660 feet FEL
 - iii. Status: producing Eumont gas well
 - iv. Order R-10868, September 3, 1997,
approved unorthodox gas well location
and simultaneous dedication

(2) Unit B:

- a. Devonian State Well No. 2
 - i. API 30-025-04729
 - ii. Located 660 feet FNL and 1980 feet FEL
 - iii. Status: producing Eumont gas well
 - iv. Order R-10868, September 3, 1997,
approved unorthodox gas well location
and simultaneous dedication

(3) Unit G:

- a. Devonian State Well No. 5
 - i. API 30-025-04728
 - ii. Located 1980 feet FNL and 1980 feet FEL
 - iii. Formally called the well No. 1
 - iv. Status: shut-in Eumont gas well
 - v. Order: NSP-488
- b. Devonian State Well No. 1-Y
 - i. API 30-025-04732
 - ii. Located 2310 feet FNL and 2310 feet FEL
 - iii. Status: producing Eumont gas well

Order?

(4) Unit H:

- a. Devonian State Well No. 4
 - i. API 30-025-04731
 - ii. Located 1980 feet FNL and 660 feet FEL
 - iii. Status: oil in Penrose interval of Queen awaiting approval to be re-completed as a Eumont gas well
 - iv. The re-completion detail is shown on technical exhibit 3 below

(5) Unit I:

- a. Devonian State Well No. 8
 - i. API 30-025-04727
 - ii. Located 1980 feet FSL and 660 feet FEL
 - iii. At one time called the 2-A well
 - iv. Status: producing Eumont gas well

2
,

(6) Unit J:

- a. Devonian State Well No. 7
 - i. API 30-025-04717
 - ii. Located 1980 feet FSL and 1980 feet FEL
 - iii. At one time called the Devonian State Com Well No. 3

Also referenced as the former Atlantic Richfield
Company State "D" Well No 1.

- iv. Status: producing Eumont gas well
- v. Order: referenced in NSL-3646(SD) April 3, 1996

(7) Unit O:

- a. Chevron State 2-20 Well No. 1
 - i. Drilled August 1935
 - ii. P&A'd July, 1974
 - iii. Status: due to age, Citation decided not to attempt a re-entry but will drill the Devonian State Well No. 9
- b. Devonian State Well No. 9
 - i. API 30-025-(to be assigned)
 - ii. To be located 710 feet FSL and 1980 feet FEL
 - iii. Status: new Eumont gas well waiting approval to be drilled

(8) Unit P:

- a. Devonian State Well No. 6
 - i. API 30-025-33505
 - ii. Located 710 feet FSL and 710 feet FEL
 - iii. Formally the Devonian State Com Well No. 2
 - iv. Status: producing Eumont gas well
 - v. Order : NSL-3646(SD) dated April 3, 1996

PRIOR OCD ACTION

(1) Administrative Order NSP-488, dated May 11, 1959, approved 320-acre non standard gas proration and spacing unit and its dedication to the Devonian State Well No. 1 in Unit G now known as the Devonian State Well No. 5. **Copy enclosed**

(2) Administrative Order NSL-3646(SD), dated April 3, 1996 approved the unorthodox location for the Devonian State Com. Well No. 2 (Unit P) now called the Devonian State Well No. 6 and its dedication to the 320-NSP along with the re-completion of the Devonian State Com Well No. 3 (now known as the Well No.7) in Unit P and the original Devonian State Com Well No. 1 (now known as the Well No. 5) in Unit G. **Copy enclosed**

(3) Division Order R-10868, dated September 3, 1997 entered in Case 11638 approved the unorthodox gas well locations for the Devonian State Well No. 2 (Unit B) and the Devonian State Well No. 3 (Unit A) and the simultaneous dedication of these 2 wells to this 320-acre non standard GPU. **Copy enclosed**

(4) We are unable to find Division approval for the unorthodox gas well location for the Devonian State Well No. 1-Y in Unit G.

CURRENT REQUEST

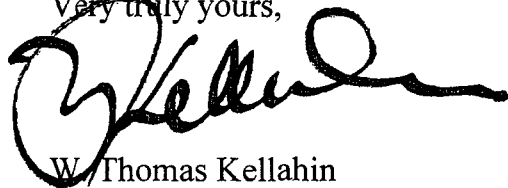
By its application, Citation requests approval to:

- (1) amend NSP-488 to authorize
 - a. re-completing the Devonian State Well No. 4 (Unit H) for an oil well to a Eumont gas well;
 - b. drill the Devonian State Well No. 9 (Unit O) as a new Eumont gas well;
 - c. dedicate these 2 wells along with the 6 existing Eumont gas wells to this NSP consisting of the E/2 of Section 20 such that there would be a well density of 1 gas well in each of the 40-acre tracts of the GPU.
- (2) amend NSL-3646(SD) to approval the unorthodox gas well location for the Well No. 1-Y, (Unit G);

SUPPLEMENTAL EVIDENCE

In accordance with Division Order R-8170-P, this letter also includes Citation Technical Exhibits 1-22 as evidence to support its request in this case.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name.

W. Thomas Kellahin

cc: Citation Oil & Gas Corp.
Attn: K. C. (Charlie) Adams



STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

April 3, 1996

Citation Oil & Gas Corp.
8223 Willow Place South - Suite 250
Houston, Texas 77070-5623
Attention: Sharon Ward

Administrative Order NSL-3646(SD)

Dear Ms. Ward:

Reference is made to your applications dated March 1, 1996 for two additional Eumont gas wells, one to be drilled at an unorthodox gas well location the other to be a reentry and recompletion of a plugged and abandoned well at a standard gas well location, within an existing non-standard 320-acre gas spacing and proration unit ("GPU") for said Eumont Gas Pool comprising the E/2 of Section 20, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico. Said GPU was authorized by Division Administrative Order NSP-488, dated May 11, 1959, and had dedicated thereon the Devonian State Com Well No. 1 (API No. 30-025-04728), located 1980 feet from the North and East lines (Unit G) of said Section 20.

The Devonian State Com Well No. 3, located 1980 feet from the South and East lines (Unit J) of said Section 20, formerly the Atlantic Richfield Company State "D" Well No. 1, was drilled in 1935 to a total depth of 3,930 feet and completed as an "oil" well in the Eumont Gas Pool. Production ceased in 1969 and the well was subsequently plugged and abandoned in 1971.

It is our understanding that Citation Oil & Gas Corp. intends to reenter this well and attempt a recompletion into the gas bearing interval of the Eumont Gas Pool.

A third well, the proposed Devonian State Com Well No. 2, is to be drilled at an unorthodox Eumont gas well location 710 feet from the South line and 660 feet from the East line (Unit P) of said Section 20.

By authority granted me under the provisions of Rule 2(d) of the "*Special Rules and Regulations for the Eumont Gas Pool*", as promulgated by Division Order No. R-8170, as amended, the unorthodox gas well location for the proposed Devonian State Com Well No. 2 is hereby approved.

Administrative Order NSL-3646(SD)

Citation Oil & Gas Corp.

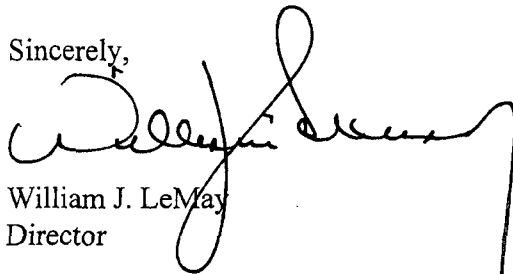
April 3, 1996

Page 2

Also, Citation Oil & Gas Corp. is hereby authorized to simultaneously dedicate Eumont Gas production from the Devonian State Com Well No. 1 with the Devonian State Com Well Nos. 2 and 3. Furthermore, Citation Oil & Gas Corp. is hereby permitted to produce the allowable assigned the subject GPU from all three wells in any proportion.

All provisions of said Division Administrative Order NSP-488 shall remain in full force and effect until further notice.

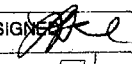
Sincerely,



William J. LeMay
Director

WJL/MES/kv

cc: Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe
File: NSP-488

PHONE MESSAGE	TO	SEW	DATE	4/15	TIME	11:25	AM PM
	FROM		AREA CODE				
	OF		NO.				
			EXT.				
	a correction will be coming per. Michael Stockner						
	SIGNATURE						
PHONED <input type="checkbox"/>		CALL BACK <input type="checkbox"/>	RETURNED CALL <input type="checkbox"/>	WANTS TO SEE YOU <input type="checkbox"/>	WILL CALL AGAIN <input type="checkbox"/>	WAS IN <input type="checkbox"/>	URGENT <input type="checkbox"/>

OIL CONSERVATION COMMISSION

P. O. BOX 871
SANTA FE, NEW MEXICO

May 11, 1959

Shell Oil Company
P. O. Box 845
Roswell, New Mexico

Attention: Mr. P. A. Dennie

Administrative Order NSP-488

Gentlemen:

Reference is made to your application for approval of a 320-acre non-standard gas proration unit in the Eumont Gas Pool consisting of the following acreage:

Township 21 South, Range 36 East, NMPM, Lea County, N. M.
Section 20: E/2

It is understood that this unit is to be dedicated to your Devonian-State Well No. 1, located 1980 feet from the North and East lines of said Section 20.

By authority granted me under provisions of Rule 5 (b), of the Special Rules and Regulations for the Eumont Gas Pool, as set forth in Order R-520, you are hereby authorized to operate the above described acreage as a non-standard gas proration unit, with allowable to be assigned thereto in accordance with the pool rules, based upon the unit size of 320 acres.

Very truly yours,

A. L. PORTER, Jr.,
Secretary-Director

ALP/OEP/og

cc: Oil Conservation Commission - Hobbs
Oil & Gas Engineering Committee - Hobbs

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 11638
Order No. R-10868

APPLICATION OF CITATION OIL & GAS
CORPORATION FOR TWO UNORTHODOX GAS
WELL LOCATIONS AND FOR SIMULTANEOUS
DEDICATION, LEA COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 AM on July 10 and August 7, 1997, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 3rd day of September, 1997, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The applicant, Citation Oil & Gas Corporation (Citation), is the operator of the wells located within the E/2 of Section 20, Township 21 South, Range 36 East, NMPM, Lea County, New Mexico.
- (3) The applicant seeks:
 - a) approval of two unorthodox gas well locations in the Eumont Gas Pool for its existing: 1) Devonian State Well No. 2 (API No. 30-025-04729) located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 20; 2) Devonian State Well No. 3 (API No. 30-025-04730) located 660 feet from the North and East lines (Unit A) of Section 20, both in Township 21 South, Range 36 East, NMPM, which wells are located at standard oil well locations in the

CASE NO. 11638

Order No. R-10868

Page -2-

Eumont Gas Pool, but by virtue of the proposed reclassification as gas wells, as described below, will be located at unorthodox gas well locations in the Eumont Gas Pool;

- b) to reclassify the aforesaid Devonian State Well No. 2, effective as of October 1, 1990, and the Devonian State Well No. 3, effective as of December 1, 1990, from oil wells to gas wells in the Eumont Gas Pool;
- c) approval to simultaneously dedicate an existing 320-acre non-standard gas spacing and proration unit in the Eumont Gas Pool comprising the E/2 of Section 20 (established by Division Order No. NSP-488, dated May 11, 1959) to the above-described Devonian State Well Nos. 2 and 3 and to its existing Devonian State Com Well No. 1 (API No. 30-025-04728) located at a standard gas well location in the Eumont Gas Pool 1980 feet from the North and East lines (Unit G) of Section 20;
- d) to present evidence and testimony with regards to the status of all Eumont Gas Pool production, both oil and gas, within the E/2 of Section 20 and the status and/or effect of Division Administrative Order No. NSL-3646 (SD) dated April 3, 1996; and,
- e) authorization to file amended Division Form C-115 (Operator's Monthly Report) showing reclassification of its Devonian State Well No. 3 effective December 1, 1990, and its Devonian State Well No. 2 effective October 1, 1990, from oil wells to gas wells, and showing certain corrected production volumes.

(4) In support of its application, Citation provided background information which demonstrates that:

CASE NO. 11638
Order No. R-10868
Page -3-

- a) on August 16, 1934, Shell Petroleum Corporation drilled the Devonian State Com Well No. 1, located in Unit G of Section 20, as an oil well in the Eunice Pool. On September 22, 1953, Shell Oil Company recompleted the well for gas production and dedicated it to a 160-acre non-standard gas spacing and proration unit comprising the NE/4 of Section 20 for gas production from the Eumont Gas Pool;
- b) on October 8, 1958, Shell Oil Company (Shell), Gulf Oil Corporation (Gulf), Standard Oil Company of Texas (Standard) and Atlantic Refining Company (ARCO) entered into a "Gas Communitization and Pooling Agreement," dated October 8, 1958, which pooled the NE/4 of Section 20 with the SE/4 of Section 20 to form a 320-acre non-standard gas spacing and proration unit for gas production from the aforesaid Devonian State Com Well No. 1 in the Eumont Gas Pool;
- c) instead of entering into a Joint Operating Agreement (JOA) for operations of gas wells within the E/2 spacing unit, Shell, et al., adopted an "Agreement for Use of Well" also dated October 8, 1958. This agreement is specifically limited to the Devonian State Com Well No. 1 and makes no provisions for additional wells or subsequent operations. Further, this Agreement fails to make a provision for a Eumont Gas Pool well being reclassified from an oil well to a gas well or visa versa;
- d) on May 11, 1959, upon application by Shell Oil Company, the Division issued Order No. NSP-488, which order approved the enlargement of the spacing unit to consist of the E/2 of Section 20 for dedication to the Devonian State Com Well No. 1; and,
- e) Citation currently operates the Devonian State Com Well No. 1, having succeeded to Shell's interest as of late 1986 to become operator of this well.

CASE NO. 11638
Order No. R-10868
Page -4-

(5) Citation provided expert legal opinions and testimony concerning the 1958 contracts for allocating gas and oil production among the interest owners in the E/2 of Section 20. This testimony indicates that:

- a) the Gas Communitization and Pooling Agreement dated October 8, 1958, pools the E/2 of Section 20 to form a gas spacing and proration unit in conformity with an established well-spacing program for the Eumont Gas Pool but is expressly limited to "only dry gas and associated liquid hydrocarbons produced from a gas well...";
- b) this Gas Communitization and Pooling Agreement was implemented by the "Agreement for Use of Well" also dated October 8, 1958, which was limited to operation of the Devonian State Com Well No. 1;
- c) the Devonian State Com Well No. 1 was drilled as an oil well on leases in the NE/4 of Section 20 owned 50% by Shell (now Citation) and 50% by Gulf (now Chevron USA Inc. (Chevron)). When the well was recompleted for gas production, the lands were communitized with lands in the SE/4 of Section 20 which were owned 75% by Gulf and Standard (now Chevron) and 25% by ARCO;
- d) this well was not "assigned" to the working interest owners, but instead, the costs of completion and future operations were paid from revenues. At that time, Gulf's share was the same in the NE/4 and SE/4 and it did not participate in an arrangement between Shell, ARCO and Standard to "balance" the costs and expenses. That arrangement resulted in Shell paying 50% of the costs of the gas completion by receiving 23.4375% of the revenues and with ARCO and Standard diverting 13/16th of their revenue to Shell until their 1/8th cost of completion was paid. ARCO and Gulf continued to pay 1/16th each to Citation for operating costs for the well plus their share of the 1/8th royalty to the State of New Mexico; and,

CASE NO. 11638
Order No. R-10868
Page -5-

e) this interpretation of the 1958 Agreements has resulted in the following:

- i) revenues from gas production from the Devonian State Com Well No. 1 have been shared 53.90625% to Chevron, 23.4365% to Citation 1987 Investment Limited Partnership and 10.15625% to ARCO;
- ii) drilling, completion, maintenance and all other costs associated with any subsequent operations on the Devonian State Com Well No. 1 have been shared 50% by Citation 1987 Investment Limited Partnership and 50% by Chevron;
- iii) ARCO and Chevron are each paying to Citation a 1/16 of 1/8th production payment as compensation for unit operating costs for this well.

(6) Citation provided further expert legal opinions and testimony concerning flaws with the 1958 contracts. This testimony indicates that:

- a) the Commissioner of Public Lands for the State of New Mexico required an approved communitization agreement in order to consolidate acreage under multiple leases for a single spacing and proration unit, the size of which conforms to the Rules and Regulations of the New Mexico Oil Conservation Division. (See SLO Rule 1.044 to 1.051.);
- b) approval of the communitization agreement by the Commissioner of Public Lands effectively committed the state lease royalty to the agreement;

CASE NO. 11638

Order No. R-10868

Page -6-

- c) communitization agreements used by the Commissioner of Public Lands, including this 1958 communitization agreement, make no provisions for the drilling, completing or operating of any well or wells within that spacing unit but leaves it up to the working interest owners to reach agreement for those activities usually by signing a JOA which sets forth specific provisions for the drilling, completing or operating of any well or wells within that spacing unit; and,
- d) unfortunately, the 1958 Agreements are limited to a single well, the Devonian State Com Well No. 1, and contain no provisions for the operations of other wells in the E/2 of Section 20. Further, the "Agreement For Use of Well" is unique to the Devonian State Com Well No. 1 and is not appropriate for other wells in this spacing unit.

(7) The Special Rules and Regulations for the Eumont Gas Pool, as promulgated by Division Order No. R-8170, as amended, provide, among other things:

- a) the Eumont Gas Pool is a prorated gas pool based upon standard 640-acre gas spacing and proration units. The Division allocates production allowables to each spacing unit using an acreage factor of 4.0 per 640-acre unit;
- b) a gas well in the Eumont Gas Pool is defined as a well producing gas at a gas-liquid ratio greater than 100,000 cubic feet of gas per barrel of oil; and,
- c) while the Eumont pool rules are silent about this, the Division discourages the practice of simultaneously dedicating the same acreage to both an oil well and a gas well if the operations are conducted by different operators.

(8) Citation provided evidence and testimony which indicates that in the spring of 1996 it conducted an audit of production data which indicated that the Devonian State Well Nos. 2 and 3 should have been reclassified from oil wells to gas wells in the Eumont Gas Pool effective October 1, 1990, and December 1, 1990, respectively.

CASE NO. 11638

Order No. R-10868

Page -7-

(9) On April 3, 1996, the Division, upon application of Citation, issued Administrative Order NSL-3646(SD), which order authorized Citation to drill its Devonian State Com Well No. 2 at an unorthodox gas well location for the Eumont Gas Pool 710 feet from the South line and 660 feet from the East line (Unit P) of Section 20, to re-enter the Devonian State Com Well No. 3 (formerly the ARCO State "D" Well No. 1) located at a standard gas well location in the Eumont Gas Pool 1980 feet from the South and East lines (Unit J) of Section 20, and to simultaneously dedicate the E/2 of Section 20 to the aforesaid Devonian State Com Well Nos. 2 and 3 and to the existing Devonian State Com Well No. 1.

(10) Thereafter, Citation advised Chevron and ARCO, the working interest owners in the E/2 of Section 20, of the results of the audit which concluded that:

- a) the Devonian State Well Nos. 2 and 3 should have been reclassified as gas wells when their individual GORs exceeded 100,000 to 1; and,
- b) the gross gas revenues should be distributed to the owners in the E/2 and not just to the working interest owners in the NE/4 of Section 20.

(11) In order to correct any inequities that have occurred or may occur in the future with regards to the operation of the E/2 of Section 20 in the Eumont Gas Pool, the applicant has proposed the following solution:

- a) because, historically the parties have shared gas production from the Devonian State Com Well No. 1 based upon their proportionate interest in the existing 320-acre non-standard gas spacing and proration unit, Citation proposed that both gas and oil production and costs for all existing and future wells in the E/2 of Section 20 be shared on the same percentages;
- b) Citation will operate all existing and future oil and gas wells in this spacing unit in the Eumont Gas Pool;

CASE NO. 11638

Order No. R-10868

Page -8-

- c) because the 1958 Agreements are inadequate and only apply to the Devonian State Corn Well No. 1 and there was no JOA for this 320-acre spacing unit. Citation proposed and ARCO and Chevron agreed to sign an appropriately modified JOA using AAPL Form 610-1982;
- d) because the entire E/2 of Section 20 consists of State of New Mexico Oil and Gas leases and because all state royalties due have been properly paid, there is no need to amend or revise the existing communitization agreement.

(12) As a result, this settlement, which was acceptable to Chevron and ARCO, Citation had received more than its proportionate share of gas production and therefore re-distributed production by using the date at which the Devonian State Well No. 2 should have been reclassified as a gas well (October 1, 1990) and the date at which the Devonian State Well No. 3 should have been reclassified as a gas well (December 1, 1990) as the commencement dates for accounting for all gas and oil production from all wells in this spacing unit.

(13) Because all parties have now agreed to this new JOA, Citation will disburse to ARCO and Chevron their respective adjusted net share of proceeds.

(14) The working interest owners have now agreed to "share" gas/oil production among all the owners in the E/2 and not just to the owners in the NE/4 of Section 20 pursuant to the new JOA covering all operations in the E/2 of Section 20, including:

- a) all existing and future drilled oil and gas wells in the Eumont Gas Pool within the E/2 of Section 20;
- b) designation of Citation as operator; and,
- c) providing that effective as of June 1, 1997, the working interest in the E/2 of Section 20 shall share all production and pay all expenses for any existing wells and all future wells on the following percentages:

ARCO:	7.4910%
Chevron:	60.8241%
Citation:	31.6849%

CASE NO. 11638
Order No. R-10868
Page -9-

(15) Chevron and ARCO, who initially opposed Citation's application in this case, have withdrawn their opposition based upon the above-described agreements.

(16) A review of the oil/gas classification for all wells in the E/2 of Section 20, including the Chevron operated Janda NCT-A Well No. 2, demonstrates that acceptable gas balancing has been accomplished for all prior gas production from the aforesaid Janda NCT-A Well No. 2 and the Citation operated wells in this 320-acre gas spacing and proration unit.

(17) Subsequent to the hearing held on July 10, 1997, the applicant provided additional notification to all offset operators advising them that the Division would continue this case to the Examiner hearing set for August 7, 1997. No other offset operator and/or interest owner appeared at the hearing in opposition to the application.

(18) Division Administrative Order No. NSL-3646(SD) should remain in full force and effect and no further approvals are necessary concerning the Devonian State Corn Well Nos. 2 and 3.

(19) The applicant should be required to file amended Form C-115 for the Devonian State Well Nos. 2 and 3 reflecting reclassification as gas wells in the Eumont Gas Pool effective October 1, 1990, and December 1, 1990, respectively.

(20) Approval of the subject application will afford the applicant and the interests owners in the E/2 of Section 20 the opportunity to produce their just and equitable share of gas production from the Eumont Gas Pool, will prevent the economic loss caused by the drilling of unnecessary wells, avoid the augmentation of risk arising from the drilling of an excessive number of wells and will otherwise prevent waste and protect correlative rights.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Citation Oil & Gas Corporation, the Division hereby approves and authorizes:

CASE NO. 11638
Order No. R-10868
Page -10-

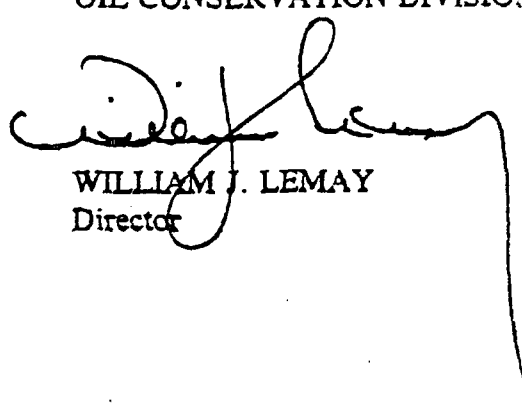
- a) the reclassification of the Devonian State Well Nos. 2 and 3, located at unorthodox gas well locations in the Eumont Gas Pool (also hereby approved) 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 20, and 660 feet from the North and East lines (Unit A) of Section 20, respectively, both in Township 21 South, Range 36 East, NMPM, effective October 1, 1990, and December 1, 1990, respectively, from oil wells to gas wells in the Eumont Gas Pool; and,
- b) the simultaneous dedication of an existing 320-acre non-standard gas spacing and proration unit in the Eumont Gas Pool comprising the E/2 of Section 20 to the above-described Devonian State Well Nos. 2 and 3 and to the existing Devonian State Com Well No. 1 located at a standard gas well location in the Eumont Gas Pool 1980 feet from the North and East lines (Unit G) of Section 20;

(2) The applicant shall file amended Form C-115's for the Devonian State Well Nos. 2 and 3 reflecting reclassification as gas wells in the Eumont Gas Pool effective October 1, 1990, and December 1, 1990, respectively.

(3) Jurisdiction of this cause 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


WILLIAM J. LEMAY
Director

S E A L

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

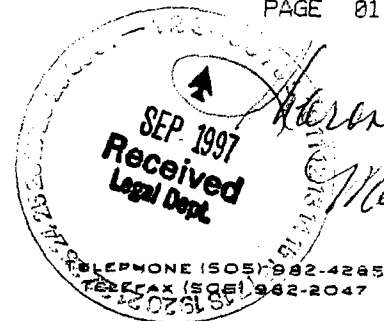
POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

**FACSIMILE COVER SHEET**

DATE: September 4, 1997

NUMBER OF PAGES: -11-
(including cover sheet)

TIME: 12:40 PM (Santa Fe time)

TO: Gary Johnson
OF: Citation Oil & Gas
FAX NO: (281) 469-7325FROM: W. THOMAS KELLAHIN**PRIVILEGED-ATTORNEY CLIENT COMMUNICATION**REF: NMOCD Case 11638
Citation Oil & Gas Corp.
Simultaneous Dedication (Eumont Gas Pool)
Lea County, NM**MESSAGE:**

Dear Gary:

This morning I obtained from the Division the attached Order R-10868 which approves Citation's application in this case. Please call me if you have any questions or find any mistakes in the order.

Regards,

A handwritten signature, likely of W. Thomas Kellahein, written in dark ink.

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**Eumont Field – Lea Co., NM
Devonian State 9 Drill Location
Devonian State 4 Recompletion
Justification for Need for Added Drainage Points
Yates/7 Rivers/Queen Zones**

July 16, 2004

SUMMARY

Citation Oil & Gas Corp. respectfully requests the Oil Conservation Division of the New Mexico Energy, Minerals and Natural Resources Department to approve our applications allowing for the drilling and completion of the Devonian State 9 well as a gas well in the Yates/7 Rivers/Queen zones. We further request the Division approve our applications to recomplete the Devonian State 4 well to the Yates/7 Rivers. The request is based on our contention that the wells will serve to increase the recoverable hydrocarbons from the zone thus eliminating waste and on the protection of correlative rights by preventing drainage of hydrocarbons by offset production.

DISCUSSION

The following exhibits are included in support of our application:

- Exhibit 1 - Field Location Map
- Exhibit 2 - Type Log – Devonian State 6
- Exhibit 3 – Devonian State 4 GR/N Log with Proposed Recompletion Correlative Rights Section
 - Exhibit 4 - Map Showing Recent Monthly Gas Production Rates by Well Around The Devonian State 9
 - Exhibit 5 - Map Showing Present Estimated Drainage Area in South Devonian State Lease
 - Exhibit 6 – Map Showing Recent Monthly Gas Production Rates by Well Around The Devonian State 4
 - Exhibit 7 - Map Showing Present Estimated Drainage Area in East Devonian State Lease
- Exhibit 8 - Devonian State 6 – Production Data and Plot
- Exhibit 9 - Devonian State 7 – Production Data and Plot
- Exhibit 10 - Devonian State 8 – Production Data and Plot
- Exhibit 11 - Conoco State C20 No. 7 – Recent Tabular Production Data
- Exhibit 11 - Burleson State C Com No. 1 – Recent Tabular Production Data
- Exhibit 12 - Hendrix B 6 – Recent Tabular Production Data

Exhibit 12 - Hendrix C 1 – Recent Tabular Production Data
Exhibit 13 - Devonian State 1Y – Production Data and Plot
Exhibit 14 - Devonian State 2 – Production Data and Plot
Exhibit 15 - Devonian State 3 – Production Data and Plot
Exhibit 16 – Arnott Ramsay C 19 – Recent Tabular Production Data
Exhibit 16 – Arnott Ramsay C 17– Recent Tabular Production Data

Added Reserves Section

Exhibit 17 - P/Z Data – Yates/7 Rivers/Queen
Exhibit 18 - Devonian State Comm 1 (5) and Other COG Wells – SI
Tbg. Pressure History
Exhibit 19 - Offset Wells to Western COG Leases – SI Tbg. Pressure History
Exhibit 20 - Devonian State – Recent SI Tbg. Pressure Data
Exhibit 21 - Devonian State – Yates/7 Rvrs Gas Production History Plot
Exhibit 22 - Devonian State – Yates/7 Rvrs Detailed Gas Production History Plot
Showing Behavior Proving Reserve Additions by Denser Development

Correlative Rights Discussion

The Devonian State lease is located in the southeast part of Lea Co. in the southeast portion of New Mexico as shown in Exhibit 1. The target horizons under discussion are shown in the type log for Devonian State 6, Exhibit 2, and are gas productive. The log and zones for recompletion in Devonian State 4 are shown in Exhibit 3. The 320 acre Unit has produced from the Yates/7 Rivers/Queen since 1953 and has made a cumulative of 13.8 BCF. Citation believes, partially due to higher natural gas prices, that we have an opportunity to drill and complete the Devonian State 9 and recomplete the Devonian State 4 and prevent drainage by offset production.

The proposed Devonian State 9 location is situated in the southwest portion of the lease and is directly offset to the south and west by wells in the same zones, on different leases and operated by other companies. The last rates of the offsets and the pertinent wells on our lease near the Devonian State 9 are shown in Exhibit 4.

The proposed Devonian State 4 recompletion candidate is situated in the eastern portion of the lease and is offset to the east by wells in the same zones, on a different lease and operated by another company. The last rates of the offsets and the pertinent wells on our lease near the Devonian State 4 are shown in Exhibit 6.

Exhibit 5 shows a map of the southern portion of the Devonian State Unit (Devonian State 9 area) with red lines drawn from the Citation wells production to the offset producers. A blue dash appears approximately halfway on these lines between the wells. These blue dashes were then connected using a light blue dashed line indicating the approximate drainage boundary between the wells. As is shown in the exhibit, the orange shaded area on the Devonian State lease is indicated as being drained by production from the offset wells.

Similarly, Exhibit 7 completes the same analysis for the Devonian State 4 lease and shows the orange area to the east of the Devonian State 4. This is the area near the Devonian State 4 that is indicated as being drained by offset well production

By allowing the drilling and completion of the Devonian State 9 and the recompletion of the Devonian State 4, the drainage boundaries will move to the leaselines and, therefore, correlative rights will be protected.

It should be noted that, although a boundary estimate of halfway between the wells has been used, the actual boundary is also affected slightly by the rate of withdrawals as well as the distance between drainage points although the difference is minor. (Reference: Practical Reservoir Engineering Monograph 3 – Oil and Gas Journal, 1966 by E. T. Guerrero) Since the rates in the offset wells are higher in the Citation wells in the Devonian State 9 area, the effect would be to actually move the boundary slightly to the north increasing the area on the Devonian State Unit being drained. Again, little or no effect on the estimated area east of Devonian State 4 would be expected due the foregoing considerations.

Production histories and plots are included for the pertinent wells as Exhibits 8 through 16.

Reserve Addition Discussion

Based on the pressure data in Exhibit 20 (24 Hour SI Tubing Pressures of 12 to 42 psig) recorded in September of 2001, the subject reservoirs are in an advanced stage of depletion. As shown in Exhibit 17, conventional P/Z information is not reliable for the estimate of remaining reserves. As shown, the last pressure point in September, 2001 indicated approximately 500 MMCF remaining if the pressure in the reservoir were to be drawn down to zero. Since then and to May 31, 2004, the Unit has produced 704 MMCF. Therefore, the use of analogs and prior lease behavior has been used to estimate the potential increase in reserves from the proposed development. It should be noted that the addition of the Devonian State 9 and Devonian State 4 drainage points would definitely serve to lower the average reservoir pressure in the Unit area and we would, therefore, expect an increase in the recoverable reserves. This can be expected in spite of the inability to use conventional P/Z based methods to quantify the potential increase.

Further, Exhibits 18 and 19 show the shut-in tubing pressure history for the Devonian State Unit, Citation's other westerly leases in the area and a number of offset wells. These plots indicate the commonality of the reservoirs across the leases and lease boundaries.

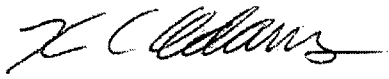
Exhibit 21 illustrates the full production history of the Devonian State Unit from the Yates/7 Rivers gas formations from 1953 to the present. It indicates a substantial improvement in production rates as increased density completions were done on the Unit from 1991 on. Exhibit 22 shows the extrapolations of production behavior following each workover which indicates a substantial addition of reserves to the Unit as a result of this work.

Based on this behavior, we have internally estimated and based our cash flow projections for the Devonian State 9 on a recoverable reserve of 280 MMCF. This is based on the analog behavior shown by the Unit and, specifically, the Devonian State 6, 7 and 8 completions. Further, we have internally estimated and based cash flow projections for the Devonian State 4 recompletion on a recoverable reserve of 238 MMCF again based on the analog behavior of nearby wells. Therefore, the total potential reserve addition possible to the Unit through this development work that we estimate is 518 MMCF.

Therefore, we believe that the additional drainage points provided by the proposed Devonian State 9 and Devonian State 4 development will allow the recovery of addition unique gas reserves that would be left in the reservoir without the completion of this work.

CONCLUSION

Based on the above, Citation believes that the drilling and completion of the Devonian State 9 and the recompletion of the Devonian State 4 are necessary to protect correlative rights and will result in reserves being recovered that would otherwise be left in the reservoir. Thus, the project will also prevent waste.



Date: July 16, 2004

K. C. (Charlie) Adams
Reservoir Engineering Manager
Citation Oil and Gas Corp.

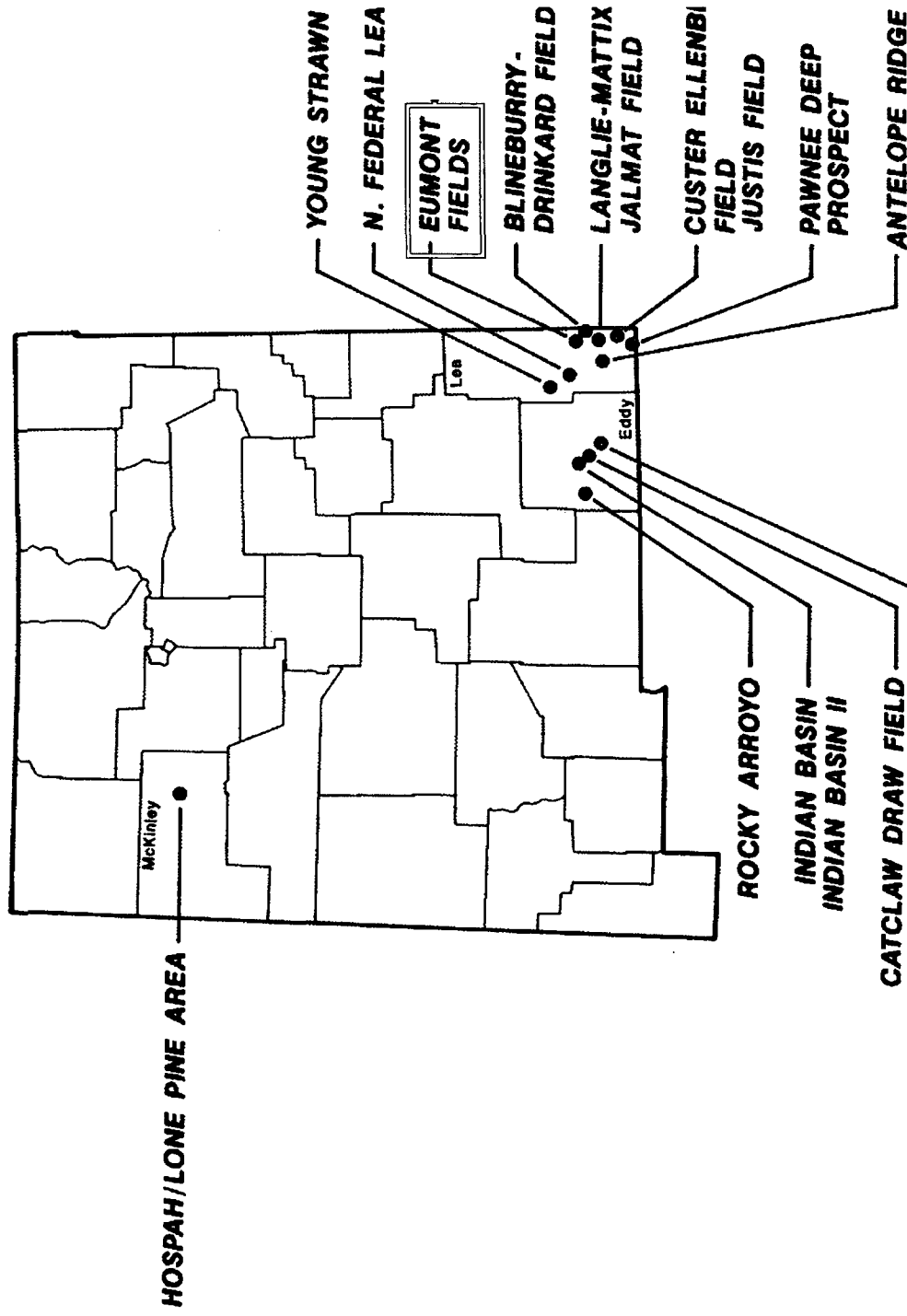


**Devonian State No. 9 – Drill Location
And Devonian State No. 4 - Recompletion**

Eumont Field

Lea County, New Mexico

**Supplemental Information for Drill and Completion
Approval**



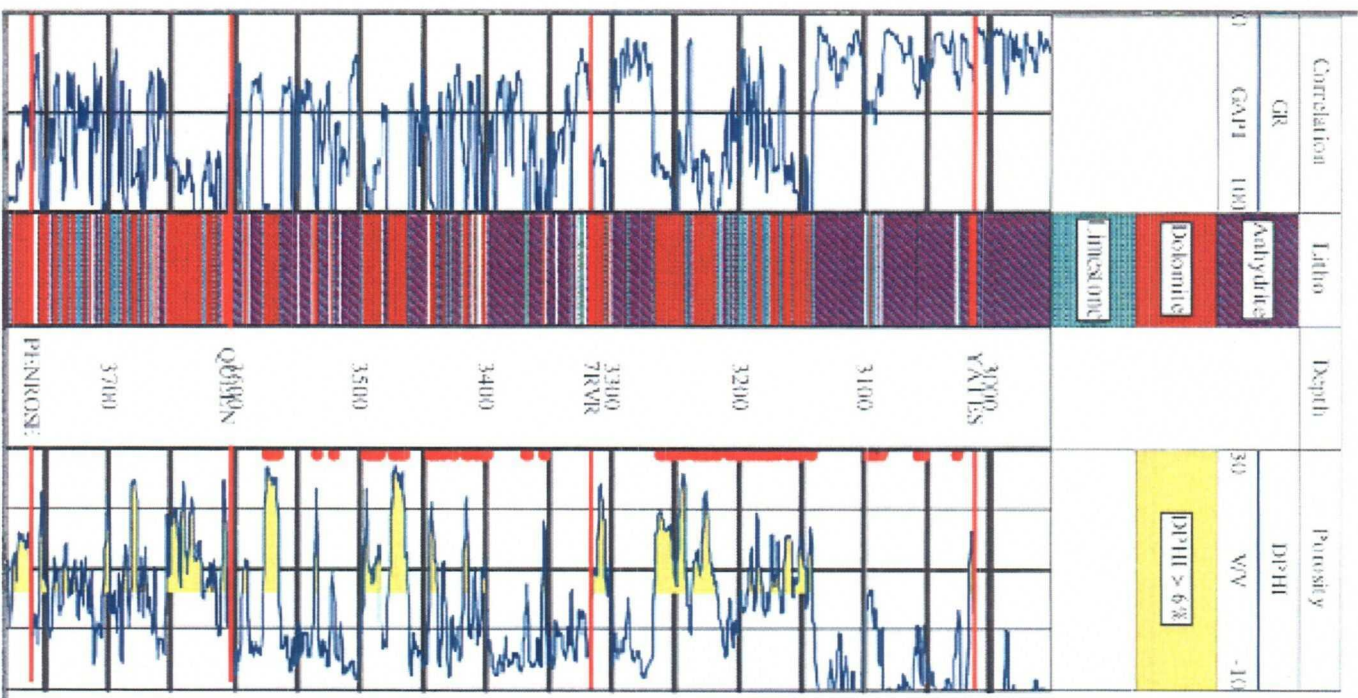
Location Map – Eumont Field

Lea Co., NM

Eumont Type Log

Devonian State 6

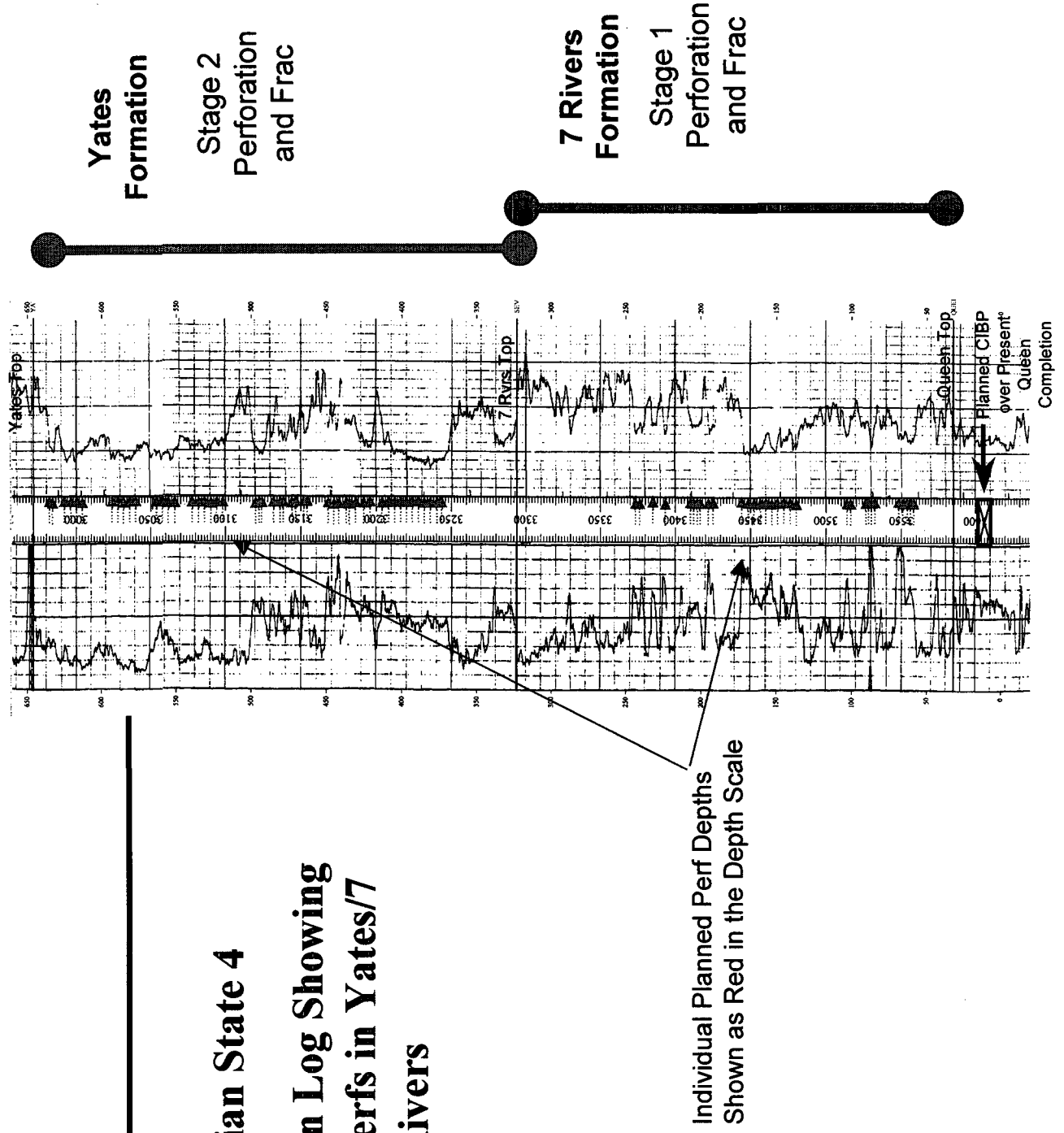
Offset to Dev. St. 9 Loc'n



Completed 11/97
Yates & 7 Rivers
IP 585 MCF/GD
Cum 192 MMCF/G



Devonian State 4
GR/Neutron Log Showing
Planned Perfs in Yates/7
Rivers





Devonian State No. 9 – Drill Location
And Devonian State No. 4 - Recompletion

Eumont Field
Lea County, New Mexico





**Necessity of Development to Prevent Offset
Drainage and Protect Correlative Rights**

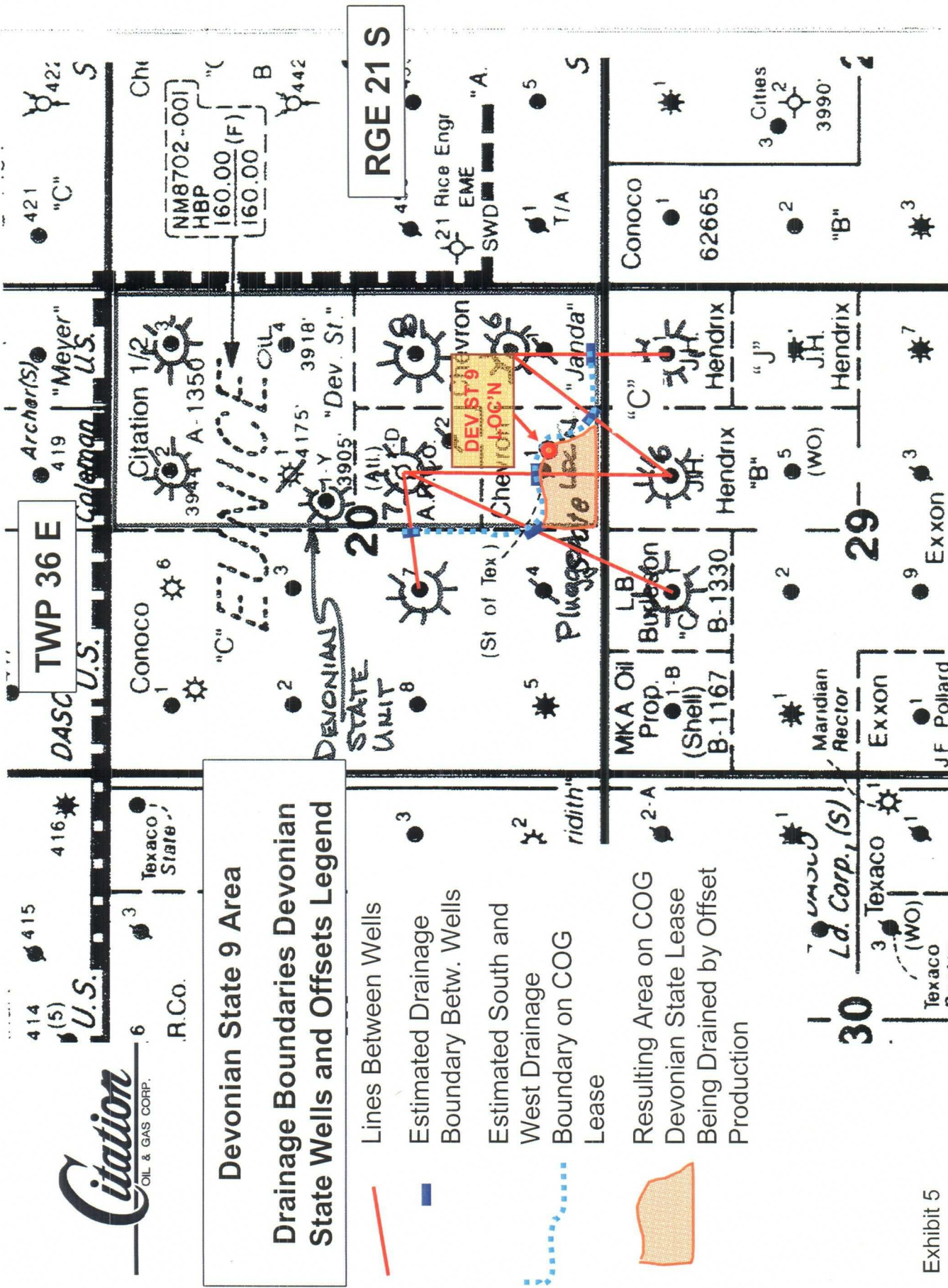


Eumont (Yates-7 Rvrs-Queen
Citation Wells May/04 Prod.

Offset Wells Mar/04 Prod.
(Hendrix Dec./03 from
NM EMND O&G Website)

Devonian State 9 Area
Drainage Boundaries Devonian
State Wells and Offsets Legend

-  Lines Between Wells
-  Estimated Drainage Boundary Betw. Wells
-  Estimated South and West Drainage Boundary on COG Lease
-  Resulting Area on COG Devonian State Lease Being Drained by Offset Production





Eumont (Yates-7 Rvrs-Queen
Citation Wells May/04 Prod.

Offset Wells Mar/04 Prod.
(From NM EM ND O&G
Website)

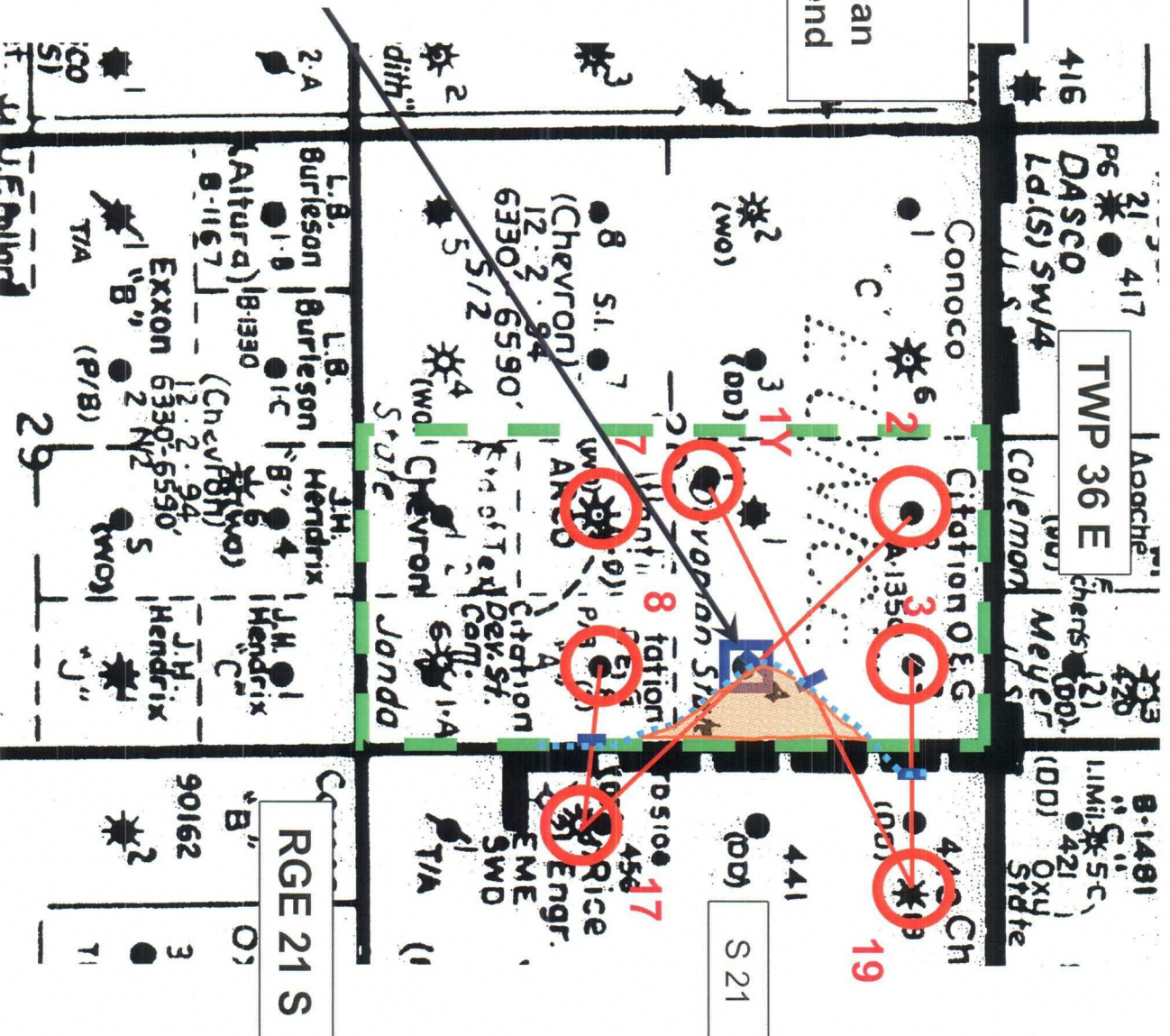
Devonian State 4 Recompletion Candidate



Devonian State 4 Area Drainage Boundaries Devonian State Wells and Offsets Legend

- Lines Between Wells
- Estimated Drainage Boundary Betw. Wells
- Estimated South and West Drainage Boundary on COG Lease
- Resulting Area on COG Devonian State Lease Being Drained by Offset Production

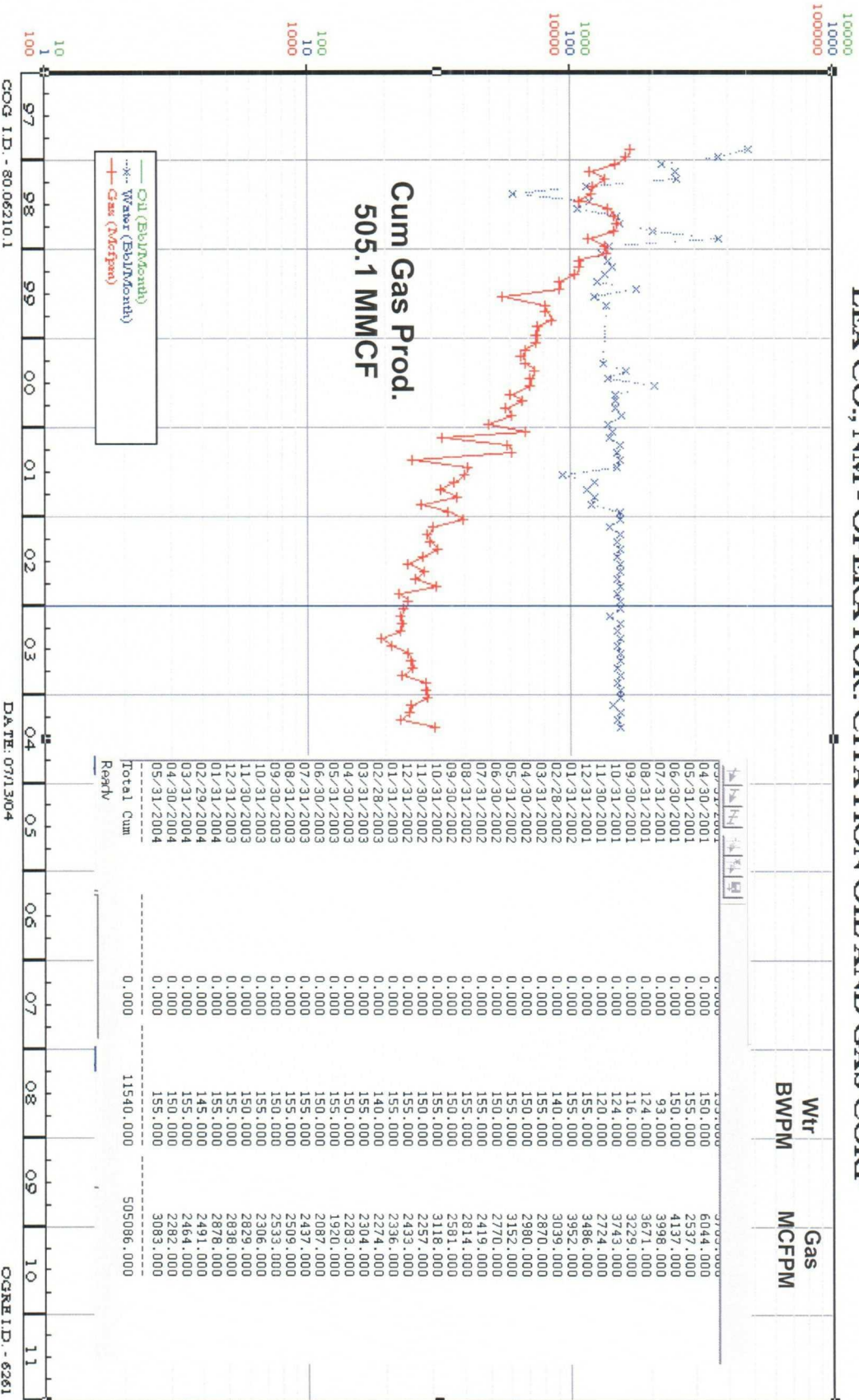
Devonian State 4
Recompletion
Candidate





Production Data Relevant to Dev. St. 9

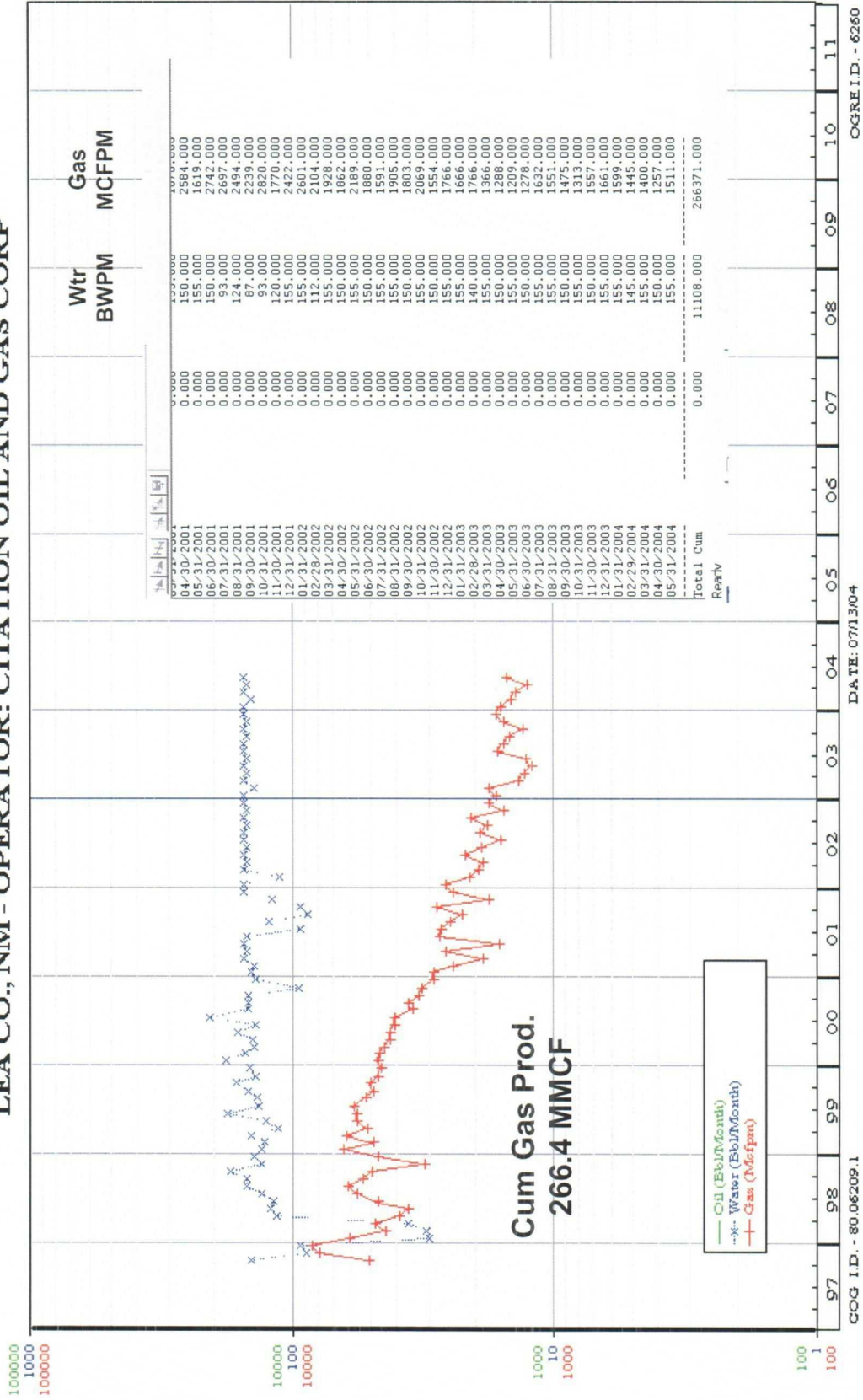
DEVONIAN STATE 6
EUMONT FIELD, YATES 7 RVRs QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP





Production Data Relevant to Dev. St. 9

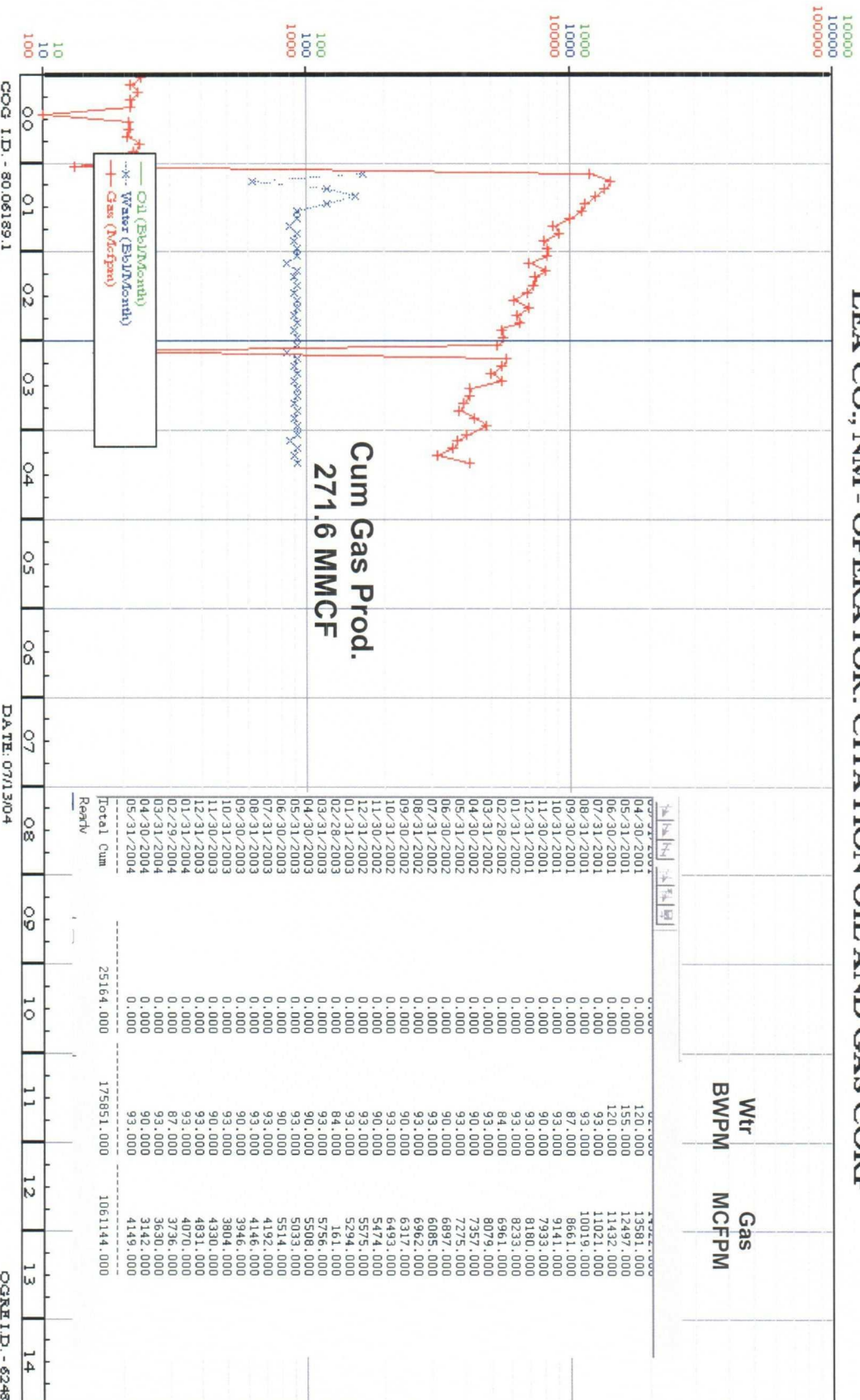
DEVONIAN STATE 7
EUMONT FIELD, 7 RVRs QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP





Production Data Relevant to Dev. St. 9

DEVONIAN STATE 8
EUMONT FIELD, YATES 7 RVRs QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP





Production Data Relevant to Dev. St. 9

Well: STATE C 20		No.: 7	No.: 1
Operator: CONOCOPHILLIPS COMPANY		API: 3E+09	API: 3E+09
Township: 21.0S	Range: 36E		
Section: 20	Unit: K		
Land Type S	County: Lea		
Total Acre: 320			
Number of 1			
Accumulated:			
Oil: 342 (BBLs)	Gas: 1959029 (MCF)		
Water: 19622 (BBLs)	Days Prod 4218 (Days)		
Year: 2003			
Pool Name: EUMONT; YATES-7 RVRS-QUEEN (PRO GAS)			
Month Oil(BBLS)	Gas(MCF)	Water(BBL Days Prod Accum. Oi Accum. Gas(MCF)	
January 0 3728	0 31	342 1909856	
February 0 3263	0 28	342 1913119	
March 0 4316	0 31	342 1917435	
April 0 4003	0 30	342 1921438	
May 0 3631	0 31	342 1925069	
June 0 3575	0 30	342 1928644	
July 0 3691	0 31	342 1932335	
August 0 4437	0 31	342 1936772	
September 0 3684	0 30	342 1940456	
October 0 3631	0 31	342 1944087	
November 0 3391	0 30	342 1947478	
December 0 3036	0 31	342 1950514	
Total 0 44386	0 365		
Year: 2004			
Pool Name: EUMONT; YATES-7 RVRS-QUEEN (GAS)			
Month Oil(BBLS)	Gas(MCF)	Water(BBL Days Prod Accum. Oi Accum. Gas(MCF)	
January 0 2922	0 31	342 1963436	
February 0 2564	0 29	342 1956000	
March 0 3029	0 31	342 1959029	
April 0 0	0 0	342 1959029	
May 0 0	0 0	342 1959029	
June 0 0	0 0	342 1959029	
July 0 0	0 0	342 1959029	
August 0 0	0 0	342 1959029	
September 0 0	0 0	342 1959029	
October 0 0	0 0	342 1959029	
November 0 0	0 0	342 1959029	
December 0 0	0 0	342 1959029	
Total 0 8515	0 91		
Year: 2003			
Pool Name: EUMONT; YATES-7 RVRS-QUEEN (PRO GAS)			
Month Oil(BBLS)	Gas(MCF)	Water(BBL Days Prod Accum. Oi Accum. Gas(MCF)	
January 0 6555	8 31	2050 2728019	
February 0 5747	6 28	560 6832	
March 0 5564	1 31		
April 0 5508	2 30		
May 0 5773	1 31		
June 0 5833	8 30		
July 0 6053	2 31		
August 0 5492	8 31		
September 0 5405	9 30		
October 0 5745	2 31		
November 0 5461	0 30		
December 0 5544	2 31		
Total 0 68680	49 365		
Year: 2004			
Pool Name: EUMONT; YATES-7 RVRS-QUEEN (GAS)			
Month Oil(BBLS)	Gas(MCF)	Water(BBL Days Prod Accum. Oi Accum. Gas(MCF)	
January 0 5570	0 31	2050 2717642	
February 0 5066	0 29	2050 2722708	
March 0 5311	15 31	2050 2728019	
April 0 0	0 0	2050 2728019	
May 0 0	0 0	2050 2728019	
June 0 0	0 0	2050 2728019	
July 0 0	0 0	2050 2728019	
August 0 0	0 0	2050 2728019	
September 0 0	0 0	2050 2728019	
October 0 0	0 0	2050 2728019	
November 0 0	0 0	2050 2728019	
December 0 0	0 0	2050 2728019	
Total 0 15947	15 91		



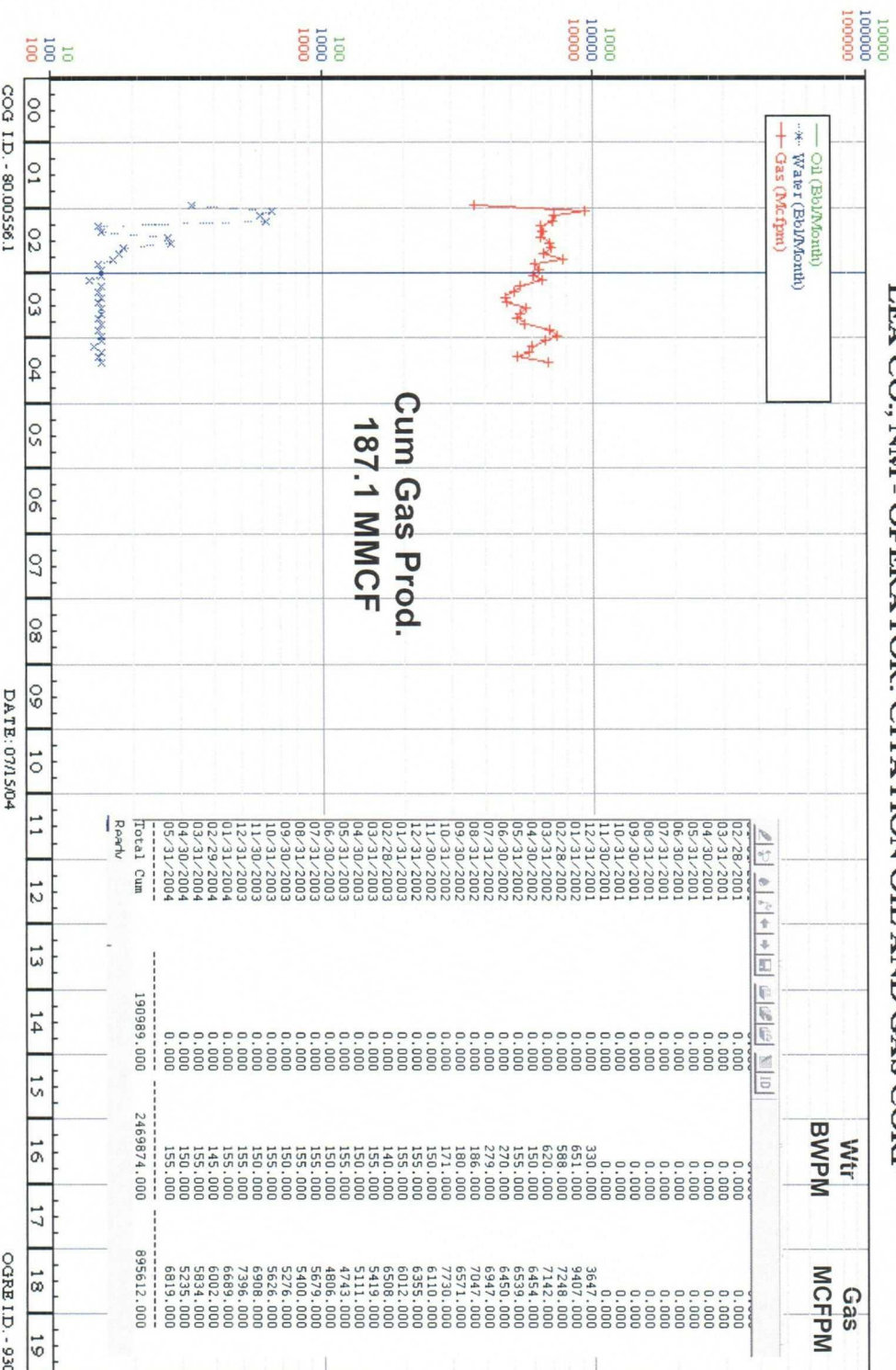
Production Data Relevant to Dev. St. 9

Well: NEW MEXICO B STATE		No.:	6	Well: NEW MEXICO C STATE		No.:	1
Operator: JOHN H HENDRIX CORP		API:	3E+09	Operator: JOHN H HENDRIX CORP		API:	3E+09
Township: 21.0S		Range:	36E	Township: 21.0S		Range:	36E
Section: 29		Unit:	B	Section: 29		Unit:	A
Land Type S		County:	Lea	Land Type S		County:	Lea
Total Acre: 40				Total Acre: 40			
Number of 1				Number of 1			
Accumulated:				Accumulated:			
Oil:		273 (BBLs)	Gas:	Oil:		45683 (BBLs)	Gas:
Water:		3058 (BBLs)	Days Prod	Water:		205906 (BBLs)	Days Prod
			2709 (Days)				8703 (Days)
Year: 2003				Year: 2003			
Pool Name: EUMONT; YATES-7 RVR-S-QUEEN (PRO GAS)				Pool Name: EUMONT; YATES-7 RVR-S-QUEEN (OIL)			
Month	Oil (BBLs)	Gas (MCF)	Water (BBLs)	Month	Oil (BBLs)	Gas (MCF)	Water (BBLs)
January	0	9004	0	January	63	4822	721
February	0	7874	0	February	30	4751	547
March	0	9020	0	March	71	5034	721
April	0	8615	0	April	59	5329	651
May	0	8233	0	May	62	5562	721
June	0	5966	0	June	63	4989	698
July	0	10226	0	July	63	4254	721
August	0	9579	0	August	51	5665	721
September	0	8975	0	September	67	4976	674
October	0	9035	0	October	56	5254	721
November	0	8759	0	November	64	3903	698
December	0	8833	0	December	62	3622	0
Total	0	104119	0	Total	711	57961	7594
			365				365



Production Data Relevant to Dev. St. 4

DEVONIAN STATE 1Y
EUMONT FIELD, YATES 7 RVRs QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP



COG ID - 80.005561

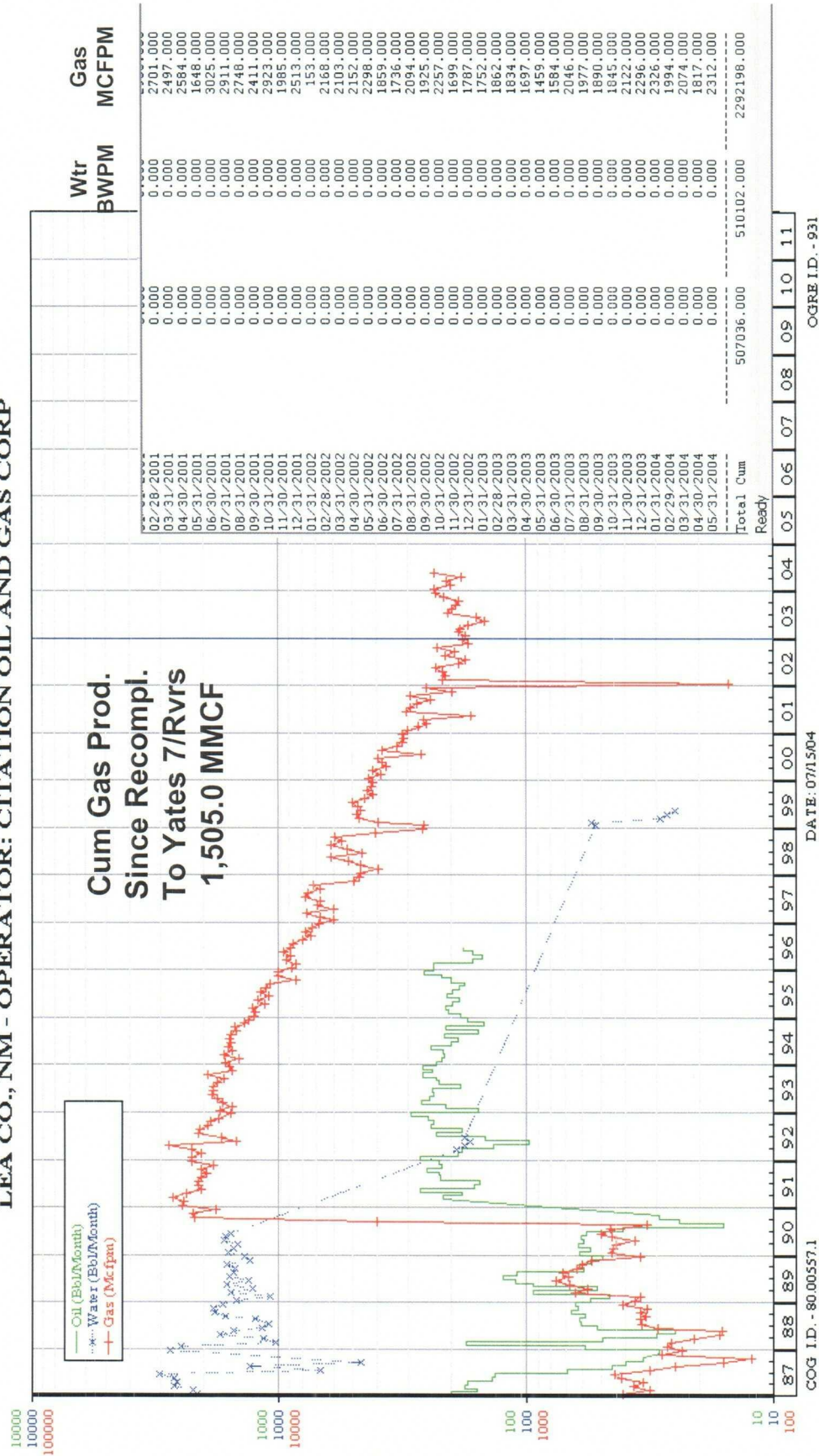
DATE: 07/15/04

OGRE ID - 930



Production Data Relevant to Dev. St. 4

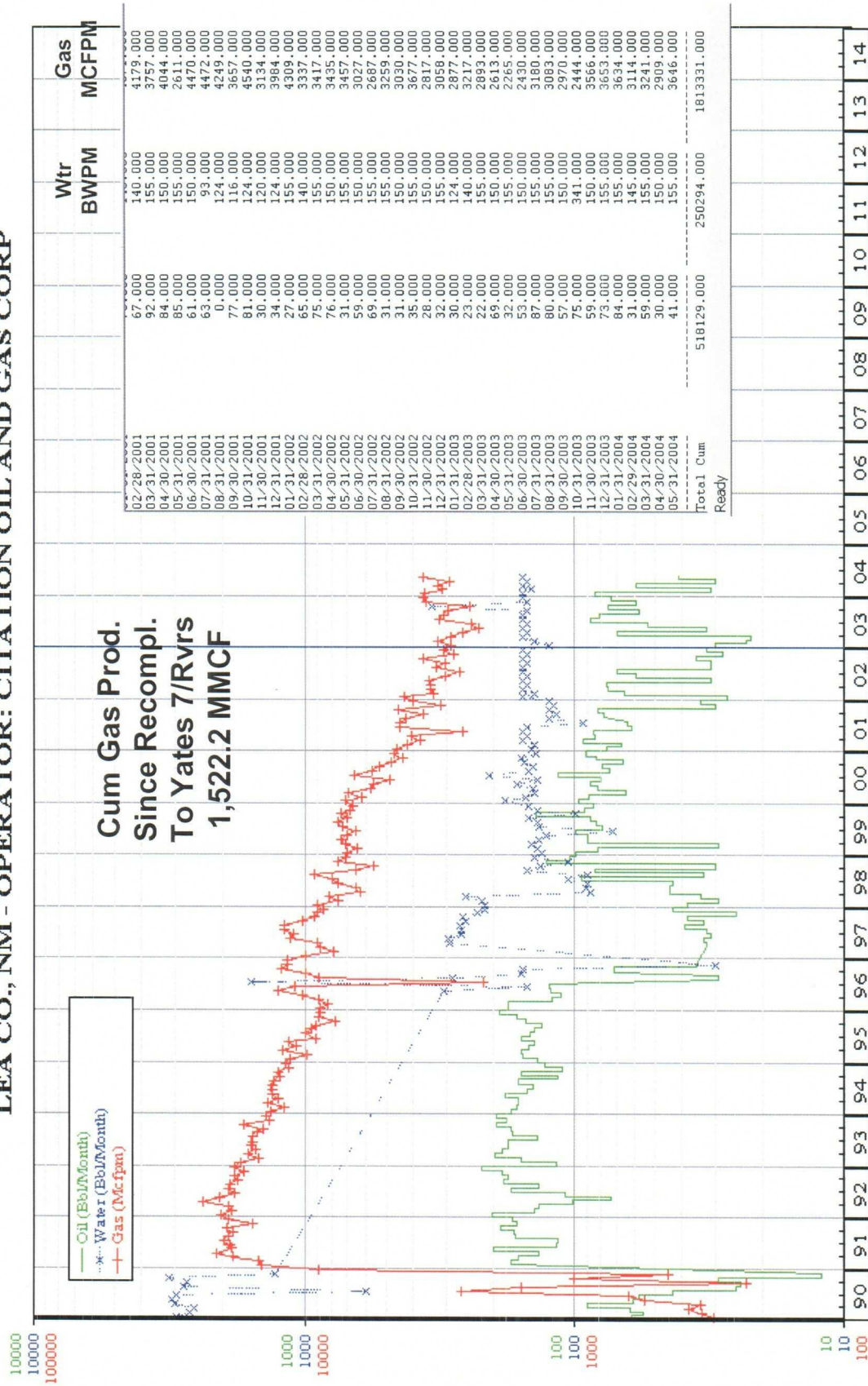
DEVONIAN STATE 2
EUMONT FIELD, YATES 7 RVRs QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP





Production Data Relevant to Dev. St. 4

DEVONIAN STATE 3
EUMONT FIELD, YATES 7 RVRS QUEEN ZONE
LEA CO., NM - OPERATOR: CITATION OIL AND GAS CORP



COG I.D. - 80.00558.1

DATE: 07/15/04

OGRE I.D. - 932



No.: 17
API: 3E+09

Exhibit 16

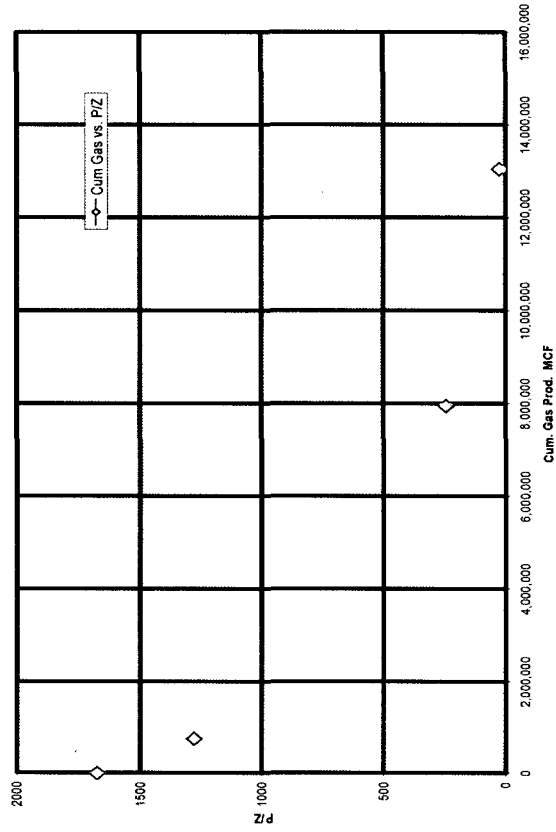


Devonian State No. 9 – Drill Location
And Devonian State No. 4 - Recompletion

Eumont Field
Lea County, New Mexico

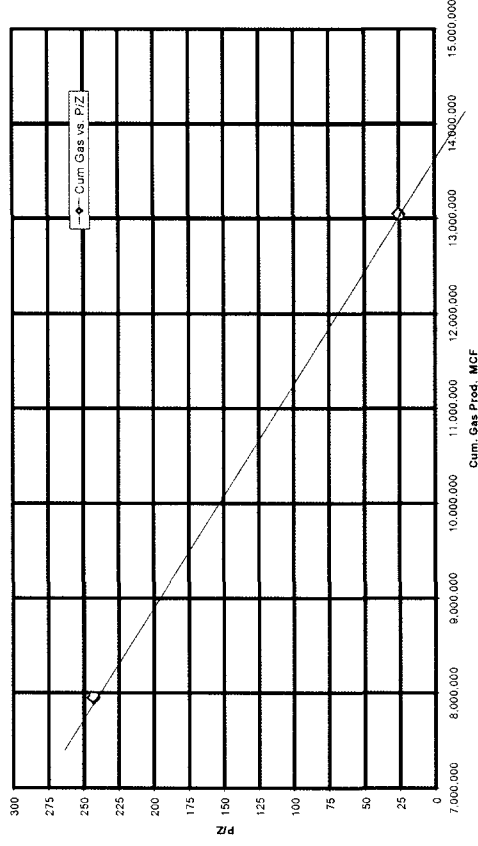
**Support for the Addition of Unique Reserves
with the Drilling of Devonian State 9 and the
Recompletion of Devonian State 4**

Citation Oil & Gas Corp
Devonian State Lease
Lea Co., NM
P/Z Plot



**P/Z Plot Showing Selected
BHP Calc. from SI Wellhead
Press.**

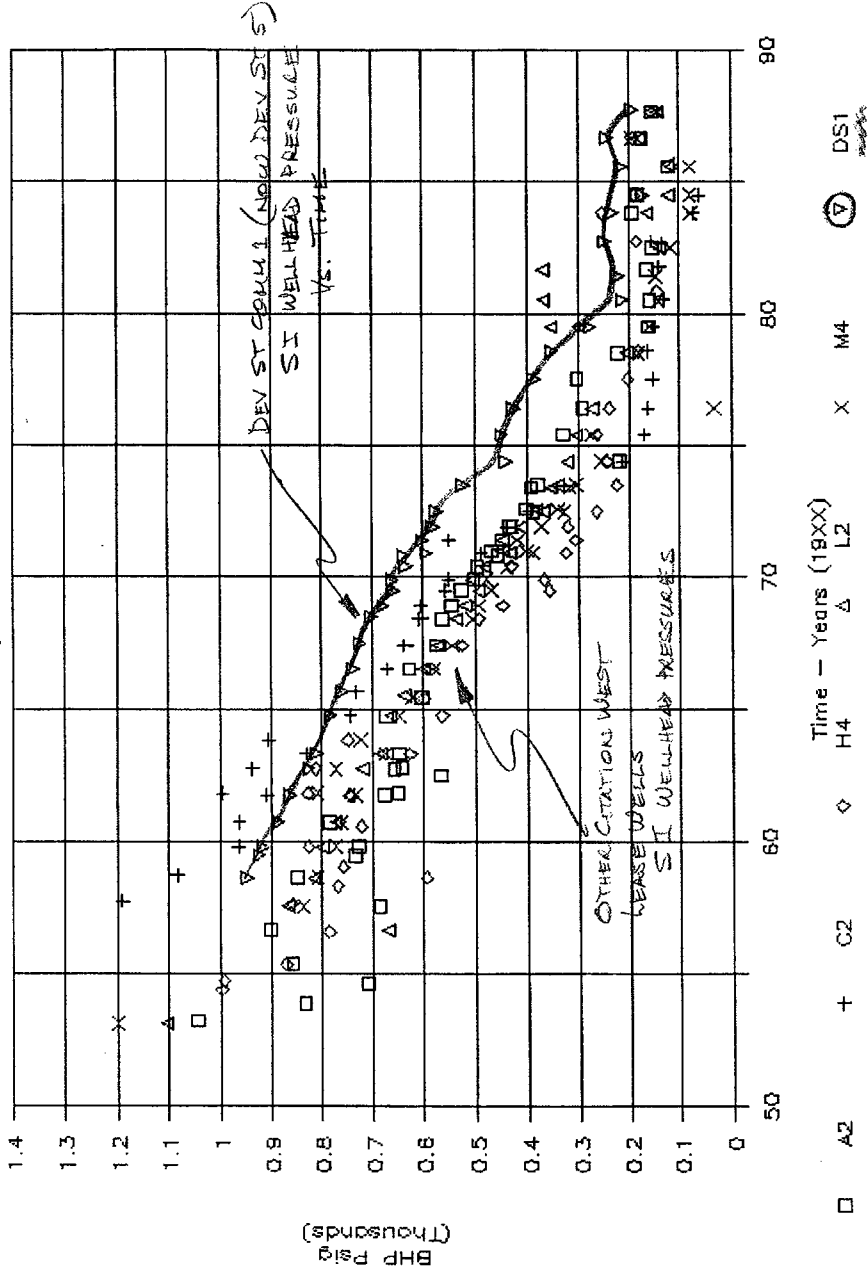
Citation Oil & Gas Corp
Devonian State Lease
Lea Co., NM
P/Z Plot



Note that if the reservoir is taken to zero, there is approximately 500 MMCF of reserves left in 9/2001. Since then, 704 MMCF have been produced from the lease indicating, at these extremely low pressures, typical P/Z methods are unreliable for determining reserves.

CITATION OIL & GAS CORP.

Eumont Average Yates Pressures

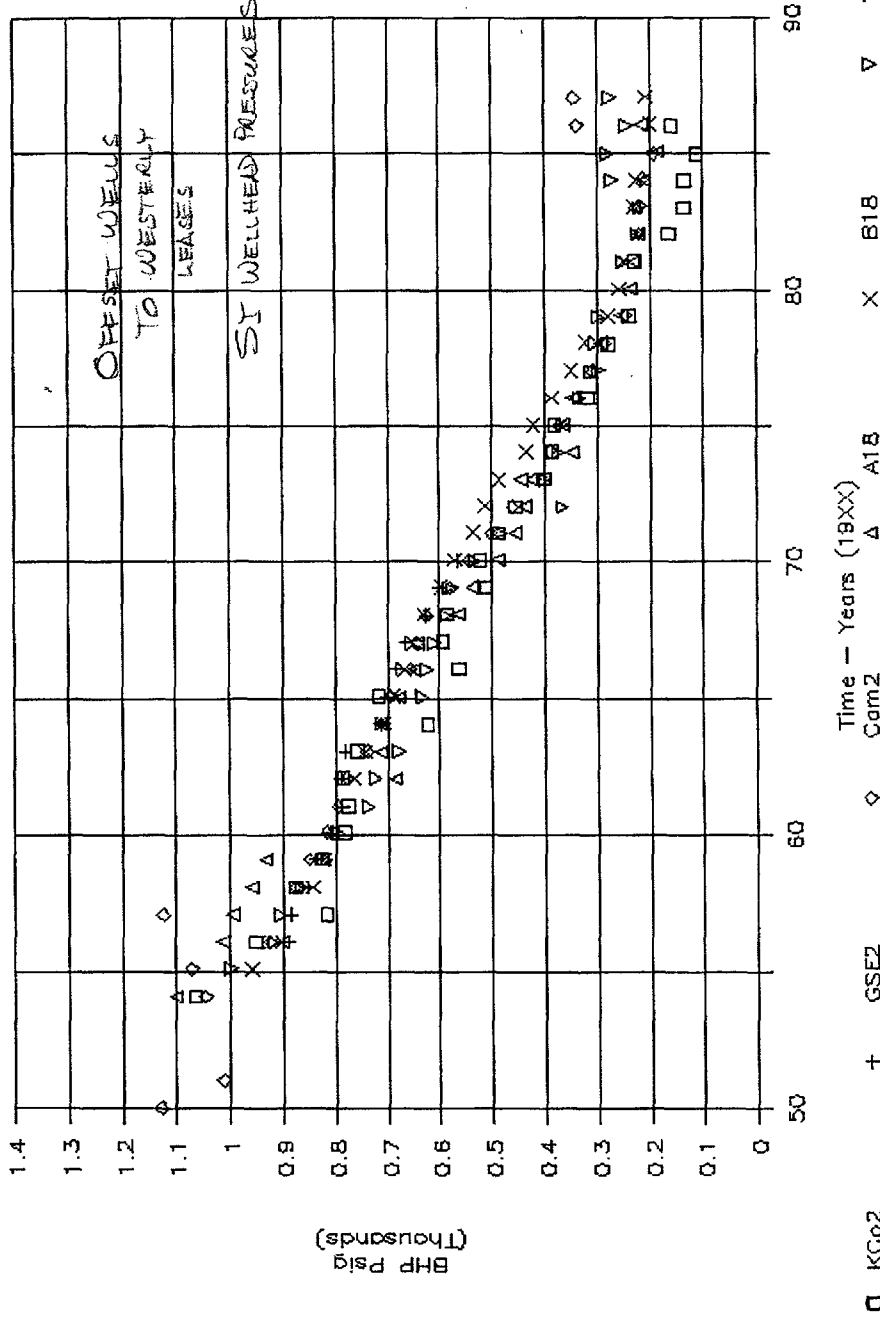


SI Wellhead Pressures from Various Leases Operated by
Citation in the Eumont Field - Devonian State Comm 1
(5) Information Highlighted - COG Reservoir Study 1987-1988



CITATION OIL & GAS CORP.

Eumont Yates Press. - Offset Wells



SI Wellhead Pressures from Various Leases Offsetting
Citation Leases in the Eumont Field - COG Reservoir
Study 1987-1988

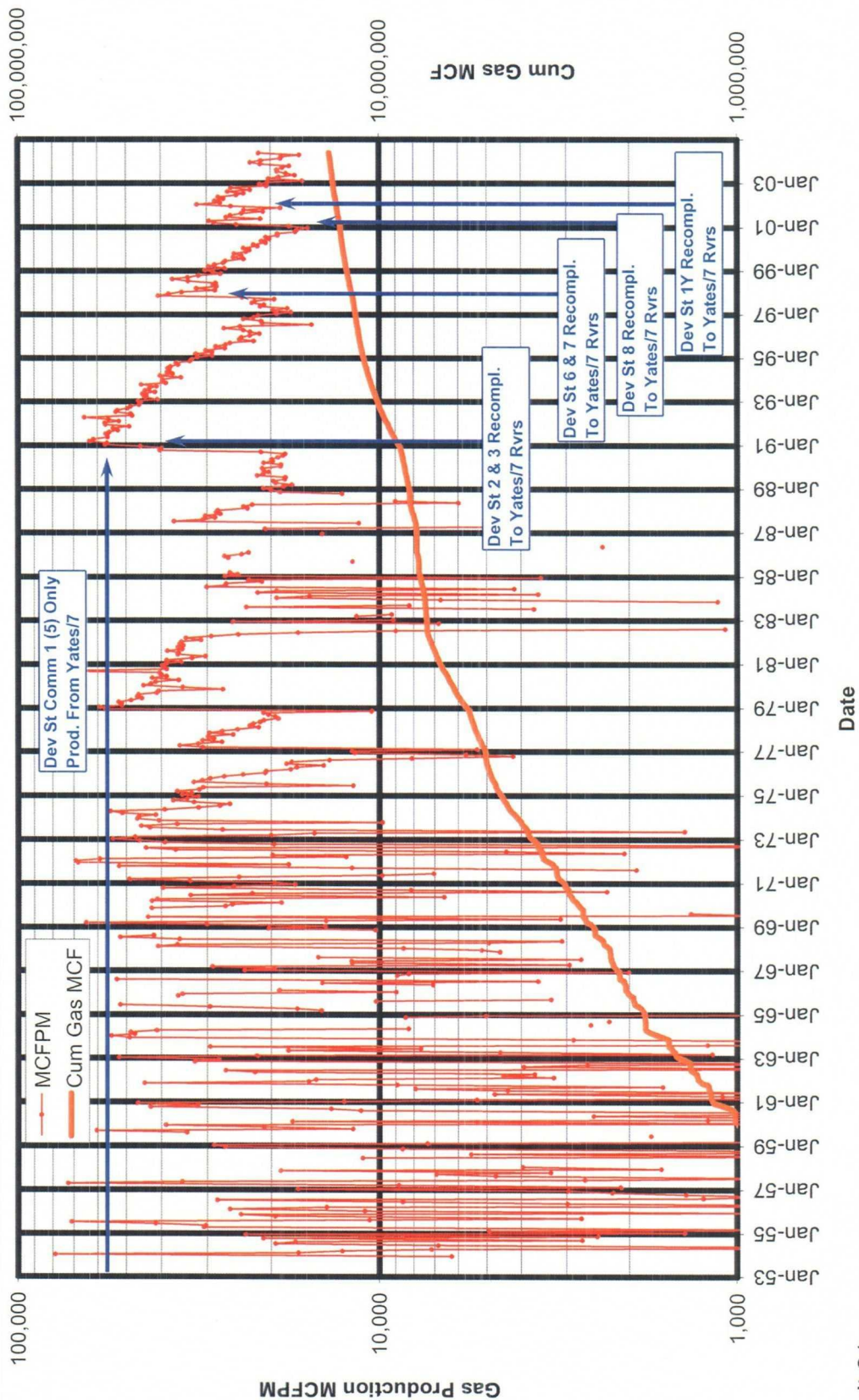


Citation Oil & Gas Corp.

Devonian State - Recent 24 Hr. Shut In Tubing Pressures Submitted to the State

	Sept./2000	Sept./2001
Dev. St. 2	24 psig	14.5 psig
Dev. St. 3	28 psig	28 psig
Dev. St. 5	21 psig	27 psig
Dev. St. 6	29 psig	16 psig
Dev. St. 7	28 psig	12 psig
Dev. St. 8	39 psig	42 psig

COG - Devonian State Gas Production History Yates/7 Rivers
Initial Production - 1953 in Dev St Comm 1 (Now Dev St 5)





COG - Devonian State Gas Production History Yates/7 Rivers
Initial Production - 1953 in Dev St Comm 1 (Now Dev St 5)

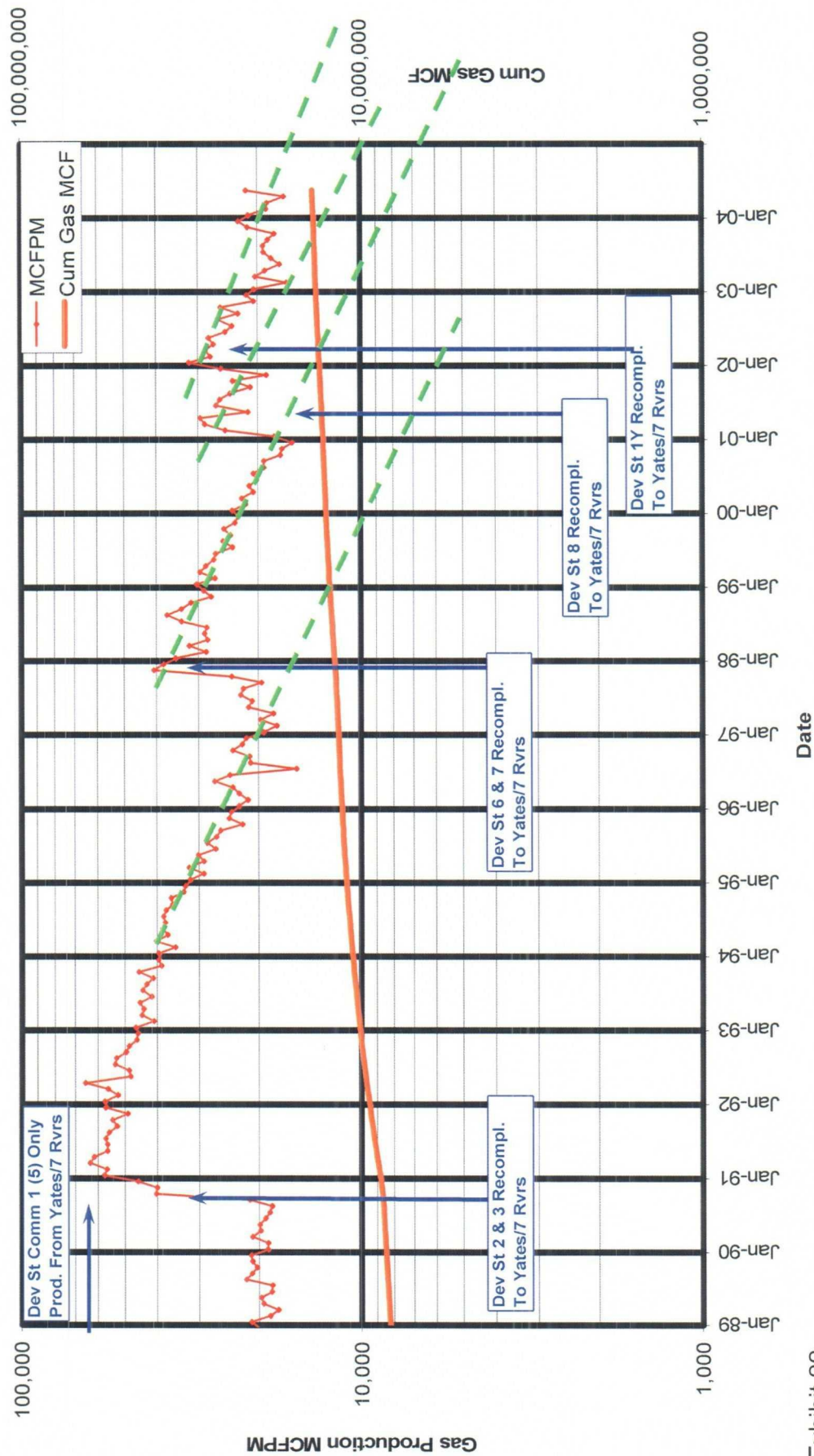


Exhibit 22

Note that, after each drainage point addition, the extrapolation (green dashed lines) of the production trends show a significant increase in gas reserves from the lease as a result of the work.