



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

August 18, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Melrose Operating Company

Attention: **Anthony J. Beilman**

P. O. Box 953

Midland, Texas 79702

Administrative Order NSL-5098

Dear Mr. Beilman:

Reference is made to the following: (i) your initial application (*administrative application reference No. pSEM0-417534968*) submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe on June 22, 2004; (ii) Ms. Ann E. Ritchie's amendment to your application filed with the Division on June 28, 2004; (iii) Ms. Ritchie's e-mail to Mr. David Catanach, Engineer with the Division in Santa Fe, on Monday, August 16, 2004 checking on the status of this application; and (iv) the Division's records: all concerning Melrose Operating Company's (Melrose") request to drill the following three described wells at unorthodox oil well locations along the "lease-line" that separates Melrose's Jalmat Field-Yates Sand Unit and Cone Jalmat Yates Pool Unit Waterflood Projects within the Jalmat Gas Pool (33820) in Section 13, Township 22 South, Range 35 East, NMPM, Lea County, New Mexico:

- (a) Jalmat Field Yates Sand Unit (**property code No. 25191**) Well No. 199
2546 feet from the North line and 94 feet from the West line (Unit E);
- (b) Cone Jalmat Yates Pool Unit (**property code No. 25203**) Well No. 200
1310 feet from the South line and 10 feet from the West line (Unit M); and
- (c) Cone Jalmat Yates Pool Unit (**property code No. 25203**) Well No. 204
2625 feet from the South line and 1310 feet from the West line (Unit L).

The Division Director Finds That:

(1) Melrose is the operator of the Jalmat Field-Yates Sand Unit Area Waterflood Project, established by Division Order No. R-2243, issued in Case No. 2546 on May 28, 1962. This secondary recovery project and corresponding Jalmat Field-Yates Sand Unit Area (see Division Order No. R-2545, issued in Case No. 2545 on May 3, 1962) comprise the following described 2,680.00 acres, more or less, in Lea County, New Mexico:

TOWNSHIP 22 SOUTH, RANGE 35 EAST, NMPM

Section 2:	S/2 S/2
Section 3:	SE/4 SE/4
Section 10:	N/2 NE/4 and SE/4
Section 11:	All
Section 12:	W/2
Section 13:	N/2
Section 14:	All
Section 23:	N/2.

(2) Melrose is also the operator of the Cone Jalmat Yates Pool Unit Waterflood Project, established by Division Order No. R-2495, issued in Case No. 2803 on June 11, 1963. This secondary recovery project and corresponding Cone Jalmat Yates Pool Unit Area (see Division Order No. R-2494, issued in Case No. 2802 on June 11, 1963) comprises the following described 1,760.00 acres, more or less, in Lea County, New Mexico:

TOWNSHIP 22 SOUTH, RANGE 35 EAST, NMPM

Section 13:	N/2
Section 23:	E/2 SE/4
Section 24:	All
Section 25:	N/2, E/2 SW/4, and SE/4
Section 36:	NE/4.

(3) Oil wells within the Jalmat Gas Pool within both waterflood projects are subject to but not necessarily limited to Rules 2 (B), 3 (A) (1), and 3 (B) of the "*Special Pool Rules for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the statewide rules and regulations for oil wells, as promulgated by Division Rules 104.B (1) and 104.F (1), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case 12119 on August 12, 1999, which provides for 40-acre oil spacing and proration units and requires that wells be located no closer than the required minimum distance to the outer boundary of the lease or unitized area (pressure maintenance/waterflood project area), in this case 330 feet, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(4) These three proposed wells should benefit both secondary recovery projects by allowing for the completion of an efficient and effective production/injection pattern within this portion of the pool along this common boundary line.

(5) It is the Division's understanding that Melrose as operator will split the proceeds from Jalmat oil production from these three wells between the two waterflood units on a fair and equitable basis.

(6) Pursuant to Division Rule 1207.A (2) (a), revised by Division Order No. R-11205, issued by the New Mexico Oil Conservation Commission in Case No. 12177 on June 17, 1999, Melrose, as operator and owner of 100 percent of the working interest in both projects, provided notice to all of the non-cost bearing interest owners in both projects.

(7) This application has been duly filed under the provisions of: (i) Division Rule 104.F, as revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999; and (ii) the applicable rules governing the Jalmat Gas pool.

(8) Approval of this application is in the best interest of conservation, will serve to prevent waste, protects correlative rights, exhibits sound engineering practices, and should allow for the recovery of additional reserves that might not otherwise be produced.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rule 104.F (2), as revised, and Rules 4 (A) and (D) of the "*Special Pool Rules for the Jalmat Gas Pool*," as promulgated by Division Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, Melrose Operating Company, as operator of the above-described: (i) Jalmat Field-Yates Sand Unit Area Waterflood Project; and (ii) Cone Jalmat Yates Pool Unit Waterflood Project, is hereby authorized to drill the following three wells at unorthodox oil well locations within the Jalmat Gas Pool (33820) in Section 13, Township 22 South, Range 35 East, NMPM, Lea County, New Mexico:

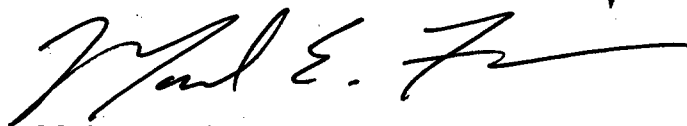
- (a) Jalmat Field Yates Sand Unit (**property code No. 25191**) Well No. 199
2546 feet from the North line and 94 feet from the West line (Unit E);
- (b) Cone Jalmat Yates Pool Unit (**property code No. 25203**) Well No. 200
1310 feet from the South line and 10 feet from the West line (Unit M); and
- (c) Cone Jalmat Yates Pool Unit (**property code No. 25203**) Well No. 204
2625 feet from the South line and 1310 feet from the West line (Unit L).

(2) These three wells shall be governed by all applicable provisions of Division Rules 702 through 706 and the applicable rules and procedures governing the: (i) Jalmat Gas Pool; (ii) Jalmat Field-Yates Sand Unit Area Waterflood Project, established by Division Order No. R-2243, issued in Case No. 2546 on May 28, 1962; and (iii) Cone Jalmat Yates Pool Unit Waterflood Project, established by Division Order No. R-2495, issued in Case No. 2803 on June 11, 1963.

(3) The distribution of proceeds from Jalmat oil production from these three wells shall be allocated between the two above-described waterflood units on a **fair and equitable basis**.

(4) Jurisdiction of this matter shall be further retained for the entry of any such subsequent orders, as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/mes

cc: New Mexico Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe
Ms. Ann E. Ritchie, Regulatory Agent – Melrose Operating Company, Midland (ann.Ritchie@wtor.net)