



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

March 29, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

**Paladin Energy Corporation
c/o Holland & Hart LLP
P. O. Box 22508
Santa Fe, New Mexico 87504-2208**

Attention: Michael H. Feldewert
mfeldewert@hollandhart.com

Administrative Order NSL-5173

Dear Mr. Feldewert:

Reference is made to the following: (i) your application 2004 (*administrative application reference No. pSEM0-505547691*) on behalf of the operator, Paladin Energy Corporation ("Paladin") submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe: on February 23, 2005; (ii) the supplemental information filed with the Division on February 25, 2005; (iii) your e-mail to Mr. Michael E. Stogner, Engineer/Hearing Officer with the Division in Santa Fe on Tuesday, March 22, 2005, requesting preferential treatment for your application; and (iv) the Division's records in Santa Fe: all concerning Paladin's request for its existing South Vacuum "27" Well No. 3 (API No. 30-025-36891), located 2300 feet from the South line and 1100 feet from the East line (Unit I) of Section 27, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico, as an unorthodox oil well location to be applicable to any and all formations and/or pools:

- (1) developed on 40-acre spacing; and
- (2) governed under the provisions of Division Rule 104.B (1), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, which presently includes but are not necessarily limited to the Undesignated Reeves-Queen Pool (52070), South Vacuum-Bone Spring Pool (61900), Reeves-Pennsylvanian Pool (52060), and South Vacuum-Mississippian Pool (97411).

The NE/4 SE/4 (Unit I) of Section 27, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico is to be dedicated to the above-described South Vacuum "27" Well No. 3 in order to form a standard 40-acre oil spacing and proration unit pursuant to Division Rule 104.B (1), as revised.

This application has been duly filed under the provisions of Division Rule 104.F, as revised.

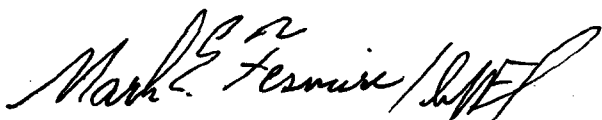
It is the Division's understanding after reviewing public records that this well was permitted by Paladin to a proposed depth of 14,000 feet as a "Granite Wash" gas test within a standard 320-acre stand-up gas spacing unit (see the "*Application for Permit to Drill*" dated September 27, 2004). Pursuant to Division Rule 104.C (2) (a), as revised, the well's location was considered to be "standard" for a deep gas well within this unit. Division records further indicate the well was spud on October 19, 2004. You stated in your application that this particular location was chosen by Paladin in order "to optimize its chances of success in the McKee gas formation [Undesignated South Vacuum-McKee Gas Pool (97368)]. Being unsuccessful in the McKee gas-bearing interval, Paladin intends to recomplete this well in the oil bearing Mississippian formation. Pursuant to Division Rule 104.B (1), as revised, the resulting oil well location within the South Vacuum-Mississippian Pool is considered to be "unorthodox" for the standard 40-acre oil spacing and proration unit.

The Division's records further indicate that the aforementioned South Vacuum "27" Well No. 3 would be a replacement oil well within a former standard 40-acre oil spacing and proration unit within the South Vacuum-Bone Spring Pool comprising the NE/4 SE/4 (Unit I) of Section 27 if this well is eventually recompleted in the Bone Spring interval. The Union Oil Company of California's South Vacuum Unit "27" Well No. 1 (API No. 30-025-03144), located at a standard oil well location 1980 feet from the South line and 660 feet from the East line of Section 27, which was initially drilled by The Pure Oil Company in 1959 to a total depth of 11,755 feet produced a total of 35,750 barrels of oil and 10,989 MCF of casinghead gas from the South Vacuum-Bone Spring Pool between August, 1964 to August, 1970. On October 30, 1970 this well was plugged and abandoned.

By the authority granted me under the provisions of Division Rule 104.F (2), as revised, the above-described unorthodox oil well location of Paladin's South Vacuum "27" Well No. 3 is hereby approved only for those oil bearing intervals developed on standard 40-acre oil spacing and proration units.

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/mes

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