



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

December 13, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

McKay Oil Corporation

c/o **Southwest Petroleum Land Services, LLC**

100 N. Pennsylvania

Roswell, New Mexico 88203

Attention: Jim Schultz

Manager and as Agent for McKay Oil Corporation

jschultz80@hotmail.com

Administrative Order NSL-2587-A (SD)

Dear Mr. Schultz:

Reference is made to the following: (i) your application (***administrative application reference No. pSEM0-533329143***) dated November 22, 2005 and filed with the New Mexico Oil Conservation Division's ("Division") office in Santa Fe, New Mexico on behalf of the operator, McKay Oil Corporation ("MOC") on November 28, 2005; (ii) Ms. April McKay's two voice-mail messages for Mr. Michael E. Stogner, Engineer with the Division in Santa Fe, New Mexico, on Monday, December 12, 2005 inquiring as to the status of this application and request for verbal approval to commence building locations; (iii) Ms. McKay's follow-up e-mail message to Mr. Stogner on Monday afternoon, December 12, 2005; and (iv) the Division's records in Artesia and Santa Fe, including the file on Division Administrative Order NSL-2587: all concerning MOC's request for exceptions to the well location requirements (***Rule 4***) provided within the "***Special Rules and Regulations for the West Pecos-Slope Abo Gas Pool***," as promulgated by Division Order No. R-9976-C, dated March 19, 1996, as amended by Division Order No. R-9976-D, issued in Case No. 13057 on February 4, 2004, in order to reestablish gas production within and to drain additional reserves from a former 160-acre standard Abo gas spacing unit with two new wells to be drill at unorthodox gas well locations within the NW/4 of Section 12, Township 6 South, Range 22 East, NMPM, West Pecos Slope-Abo Gas Pool (**82740**), Chaves County, New Mexico.

Your application for MOC has been duly filed under the provisions of: (i) ***Rule 5*** of the special West Pecos Slope-Abo Gas Pool rules and (ii) Division Rules 104.F and 1207.A (2) [formerly Division Rule 1207.A (2), see Division Order No. R-12327-A, issued by the New Mexico Oil Conservation Commission in Case No. 13482 on September 15, 2005].

From the Division's records, initial development of Abo gas production within this 160-acre unit commenced in July, 1988 when MOC drilled and completed its L.L. & E. Federal Well No. 3 (**API No. 30-005-62462**) at a location considered to be unorthodox at the time (approved by Division Administrative Order NSL-2587, dated September 30, 1988) but is now standard, 660 feet from the North line and 1485 feet from the West line (Unit C) of Section 12. Last reported production from this well was in October, 2003. It is further understood that MOC is in the process of plugging and abandoning this well.

The Division's review of its records also indicates that all of Irregular Section 1, Township 6 South, Range 22 East, NMPM, Chaves County, New Mexico, and the N/2 and SE/4 of Section 12 comprise a single federal lease (*United States Government lease No. NM-32308*) in which mineral interests appears to be common throughout and MOC is the leasehold operator.

Moreover, MOC intends to re-establish Abo gas production within the subject 160-acre unit by drilling its proposed:

- (1) L.L. & E. "B" Well No. 3 (API No. 30-005-63793) at an unorthodox replacement gas well location within the same quarter-quarter section as the above-described L.L. & E. Federal Well No. 3 (Unit C) 610 feet from the North line and 1980 feet from the West line of Section 12; and
- (2) L.L. & E. "C" Well No. 3 (API No. 30-005-63788) an at unorthodox oil well location in the southern portion of the unit 1500 feet from the North line and 2030 feet from the West line (Unit F) of Section 12.

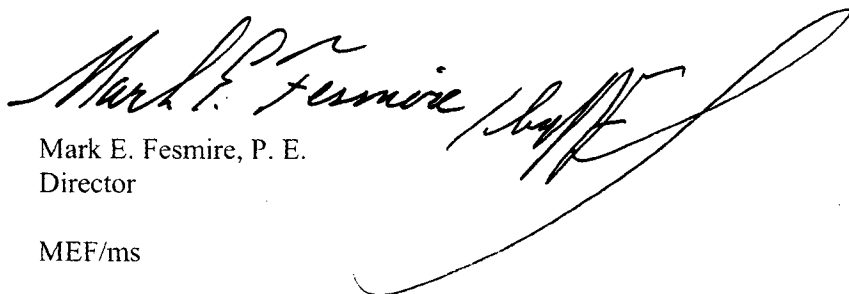
These two location exceptions are sought for topographical, geological, and reservoir drainage reasons.

By the authority granted me under the applicable provisions of the special pool rules governing the West Pecos Slope-Abo Gas Pool and Division Rule 104.F (2), the two above-described unorthodox gas well locations for MOC's proposed L.L. & E. "B" Well No. 3 and L.L. & E. "C" Well No. 3 within the NE/4 of Section 12 are hereby approved. Further, gas production from both wells is to be simultaneously dedicated to the subject 160-acre gas spacing unit.

Further, Division Administrative Order NSL-2587 shall be placed in abeyance until further notice.

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/ms

cc: New Mexico Oil Conservation Division -- Artesia
U. S. Bureau of Land Management -- Roswell
File: Division Administrative Order NSL-2587
Ms. April McKay, Vice President -- McKay Oil Corporation, Roswell (april@mckayoil.com)