



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor

Joanna Prukop
Cabinet Secretary

June 13, 2006

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Chevron U.S.A., Inc.
MidContinent SBU
P. O. Box 36366
Houston, Texas 77236

Attention: George F. Pritchard
Project Manager/Geologist
gpritchard@chevron.com

Administrative Order NSL-5067-A (SD)

Dear Mr. Pritchard:

Reference is made to the following: (i) your initial application that was submitted to Mr. Michael E. Stogner, Engineer with the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico, by e-mail on Wednesday afternoon, May 31, 2006; (ii) your follow-up hard copy received by the Division on June 1, 2006 (*administrative application reference No. pTDS0-615332094*); (iii) your telephone conversation with Mr. Stogner on Monday afternoon, June 12, 2006; and (iv) the Division's records in Santa Fe and Hobbs, including the files on Division Administrative Orders NSL-5067 (SD) and NSL-5366 (SD): all concerning Chevron U.S.A., Inc.'s ("Chevron") request for an exception to Division Rule 104.B (1) by authorizing a vertical infill well to be drilled at non-standard oil well location within an existing 80-acre stand-up "Project Area", formed pursuant to Division Rules 111.A (9) and C (3), within the Penrose Skelly (Grayburg) Pool (50350) comprising the E/2 NE/4 of Section 16, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico.

The Division Director Finds That:

- (1) The subject application has been duly filed under the provisions of Division Rules 104.F and 1210.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];
- (2) All of Section 16, Township 21 South, Range 37 East, NMPM, Lea County, New Mexico is within the pool boundary of the Penrose Skelly (Grayburg) Pool, which pool is subject to the statewide rules and regulations, as promulgated by Division Rules 104.B (1) and 505, and includes provisions for 40-acre oil spacing and proration units, or drilling units, and requires that wells be located no closer than 330 feet to the outer boundary of a single 40-acre oil spacing and proration unit; each standard 40-acre is assigned a top unit depth bracket allowable of 80 barrels of oil per day; however, pursuant to Division Order No. R-520, issued in Case No. 673 on August 12, 1954, this pool was assigned a special limiting gas/oil ratio of 10,000 cubic feet of gas per barrel of oil, which results in a pool-wide casinghead gas allowable of 800 MCF per day;

- (3) The existing 80-acre Project Area, formed pursuant to Division Rules 111.A (9) and C (3), was established in October, 2005 by combining two standard 40-acre oil spacing and proration units in the Grayburg formation [the NE/4 NE/4 (Unit A) and the SE/4 NE/4 (Unit H), both in Section 16] when Chevron recompleted its Harry Leonard (NCT-E) Well No. 5 (*API No. 30-025-06624*) as a horizontal drainhole from a standard surface location 2310 feet from the North line and 330 feet from the East line (Unit H) of Section 16 to a standard subsurface end-point, or bottomhole location, approximately 450 feet from the North line and 344 feet from the East line (Unit A) of Section 16; the subsurface wellbore path for the Harry Leonard (NCT-E) Well No. 5 is considered to be standard, more or less, and is therefore confined to this Project Area's corresponding "producing area" [see Division Rules 111.A (8) and B (3)];
- (4) Chevron is currently developing the Penrose Skelly (Grayburg) Pool within the subject 80-acre Project Area with its: (i) above-described existing Harry Leonard (NCT-E) Well No. 5; (ii) Harry Leonard (NCT-E) Well No. 6 (*API No. 30-025-25198*), a conventional wellbore located at a standard oil well location 330 feet from the North line 600 feet from the East line (Unit A) of Section 16; and (iii) Harry Leonard (NCT-E) Well No. 7 (*API No. 30-025-36741*), a conventional wellbore located at an unorthodox infill oil well location [approved by Division Administrative Order NSL-5067 (SD), dated June 4, 2004] 1330 feet from the North line 1070 feet from the East line (Unit H) of Section 16;
- (5) The NE/4 of Section 16 is a single state lease issued by the New Mexico State Land Office (*State Lease No. B-01732-0001*) with common mineral interest in which Chevron is the leasehold operator;
- (6) Chevron intends to drill its proposed Harry Leonard (NCT-E) Well No. 8 (*API No. 30-025-37834*) as the forth well within this 80-acre Project Area as a conventional vertical well at an unorthodox infill oil well location 2310 feet from the North line and 1030 feet from the East line (Unit H) of Section 16;
- (7) Such unorthodox Penrose Skelly (Grayburg) oil well location in Unit "H" of Section 16 is necessitated for geologic and engineering reasons; drainage from Grayburg wells within the immediate area is less than 40 acres; therefore, the proposed infill oil well location will enable Chevron to further develop and deplete Grayburg reserves within the Harry Leonard (NCT-E) New Mexico state lease that might not otherwise be recovered;
- (8) Chevron's proposed Harry Leonard (NCT-E) Well No. 8 was initially approved by Division Administrative Order NSL-5366 (SD), dated April 19, 2006, to be drilled within the SW/4 NE/4 (Unit G) of Section 16 at an unorthodox oil well location 2310 feet from the North line and 1430 feet from the East line of Section 16; however, this location was deemed unacceptable because of "pipeline issues" that Chevron apparently was not aware of existed at the time the initial application was filed; a move 400 feet to the east from Unit "G" into Unit "H" of Section 16 is evidentially acceptable;

- (9) It appearing the applicant has satisfied all of the appropriate requirements prescribed in Rules 104.F (2) and 1210.A (2); the subject application should therefore be approved; and
- (10) Chevron should continue to operate the aforementioned horizontal drainhole, its three conventional wells, and 80-acre Project Area under the provisions contained within this order and all other applicable provisions of Division Rules 505 and 506 and Division Order No. R-520.

It Is Therefore Ordered That:

(1) Chevron U.S.A., Inc. ("Chevron") is hereby authorized to drill its Harry Leonard (NCT-E) Well No. 8 (*API No. 30-025-37834*) at an unorthodox infill Grayburg oil well location 2310 feet from the North line and 1030 feet from the East line (Unit H) of Section 16, Township 21 South, Range 37 East, NMPM, Penrose Skelly (Grayburg) Pool (*50350*), Lea County, New Mexico.

(2) The existing 80-acre stand-up "Project Area", formed pursuant to Division Rules 111.A (9) and C (3), within the Penrose Skelly (Grayburg) Pool comprising the E/2 NE/4 (Units "A" and "H") is to be simultaneously dedicated to Chevron's: (i) Harry Leonard (NCT-E) Well No. 5 (*API No. 30-025-06624*), a horizontal drainhole located at a standard surface location 2310 feet from the North line and 330 feet from the East line (Unit H) of Section 16, with a standard subsurface end-point, or bottomhole location, approximately 450 feet from the North line and 344 feet from the East line (Unit A) of Section 16; (ii) Harry Leonard (NCT-E) Well No. 6 (*API No. 30-025-25198*), a conventional wellbore located at a standard oil well location 330 feet from the North line 600 feet from the East line (Unit A) of Section 16; (iii) Harry Leonard (NCT-E) Well No. 7 (*API No. 30-025-36741*), a conventional wellbore located at an unorthodox infill oil well location [approved by Division Administrative Order NSL-5067 (SD), dated June 4, 2004] 1330 feet from the North line 1070 feet from the East line (Unit H) of Section 16; and (iv) proposed Harry Leonard (NCT-E) Well No. 8.

(3) The operator of these four wells and corresponding 80-acre Project Area shall comply with all applicable requirements and conditions for the Penrose Skelly (Grayburg) Pool set forth in Division Rules 505 and 506 and in Division Order No. R-520, issued in Case No. 673 on August 12, 1954.

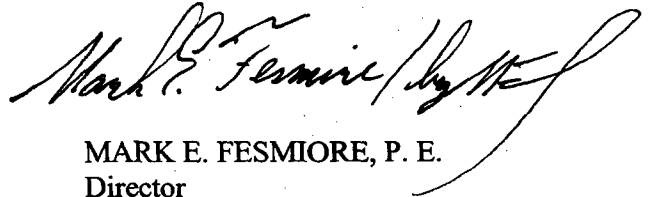
(4) This order hereby supersedes the provisions of Division Administrative Order NSL-5366 (SD), which order shall now be placed in abeyance until further notice.

(5) All provisions applicable to the unorthodox location of Chevron's above-described Harry Leonard (NCT-E) Well No. 7 in Division Administrative Order NSL-5067 (SD) not in conflict with this order shall remain in full force and affect until further notice.

(6) 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



MARK E. FESMIOR, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe
File: NSL-5067 (SD)
NSL-5366 (SD)