



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

September 22, 2006

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

EOG Resources, Inc.

c/o **Holland & Hart LLP**

P. O. Box 2208

Santa Fe, New Mexico 87504-2208

Attention: Ocean Munds-Dry

omundsdry@hollandhart.com

RE: Division Administrative Order SD-06-27

Dear Ms. Munds-Dry:

Reference is made to: (i) your letter of application on behalf of the operator, EOG Resources, Inc. ("EOG") dated on and submitted to the New Mexico Oil Conservation Division's ("Division") office in Santa Fe, New Mexico on September 8, 2006; (ii) your e-mail to Mr. Michael E. Stogner, Staff Engineer with the Division in Santa Fe, on Tuesday afternoon, September 12, 2006 with supplemental information to support EOG's application; and (iii) the Division's records in Artesia and Santa Fe: concerning EOG's plans for additional development within its recently established high angle/horizontal directional drilling project area formed pursuant to Division Rule 111.A (9) and comprising a single 320-acre stand-up deep gas spacing unit in the designated and Undesignated West Cottonwood Creek-Wolfcamp Gas Pool (75260) underlying the W/2 of Section 23, Township 16 South, Range 24 East, NMPM, Eddy County, New Mexico.

For administrative and record keeping purposes the Division has assigned this matter **Division application reference No. pTDS0-625429701**.

The West Cottonwood Creek-Wolfcamp Gas Pool and the area within one-mile of its boundary (see Division Rule 104.A) is currently governed under the provisions of Division Rule 104.C (2), which provides for: (i) 320-acre spacing units comprising any two contiguous quarter sections of a single governmental section; (ii) wells to be located not closer to a quarter section line than 660 feet nor closer to any internal quarter-quarter section line than 10 feet, and (iii) allows for an optional infill well within an existing unit provided the infill well is located in the quarter section not containing the unit's initial producing gas well.

The Division's records indicate that EOG recently drilled (spud date: May 11, 2006) its Rio Grande "23" Federal Well No. 3H (API No. 30-015-34591) from a surface location 660 feet from the South line and 1880 feet from the West line (Unit N) of Section 23 and completed the well within the designated and Undesignated West Cottonwood Creek-Wolfcamp Gas Pool with a horizontal drainhole ending at a measured depth of approximately 8,267 feet, or 4,621 feet (TVD), at a bottomhole/subsurface location 818 feet from the North line and 1683 feet from the West line (Unit C) of Section 23. The directional survey shows the path of this wellbore within the designated and Undesignated West Cottonwood Creek-Wolfcamp Gas Pool to be a standard pursuant to Division Rules 104.C (2) (a) and 111.A (7).

From your application and the Division's records, EOG now intends to horizontally drill and complete its Rio Grande "23" Federal Well No. 4H (API No. 30-015-34592), as an infill gas well within this 320-acre project area from a surface location 660 feet from the South line and 760 feet from the West line (Unit M) of Section 23, which is also within the southern half of the SW/4 of Section 23 as EOG's existing Rio Grande "23" Federal Well No. 3H, in such a manner that its path meets the set-back requirements of Division Rules 104.C (2) (b) and 111.A (7) for deep gas wells in southeast New Mexico, to a targeted standard bottomhole, or subsurface end-point, location 660 feet from the North line and 760 feet from the West line (Unit D) of Section 23.

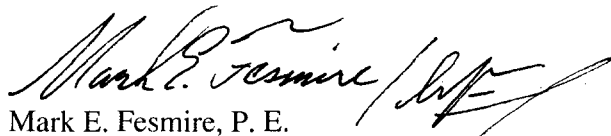
Under the authority granted me under Division Rule 111.D (2), EOG shall be permitted to proceed with its intended development of the Wolfcamp formation within the W/2 of Section 23 with the subsequent directional drilling and completion of its above-described Rio Grande "23" Federal Well No. 4H; provided however, the path of the wellbore within the designated and Undesignated West Cottonwood Creek-Wolfcamp Gas Pool shall conform to the standard set back requirements of 660 feet as required under Division Rules 104.C (2), 111.A (7), and 111.C (1).

IT IS FURTHER ORDERED HOWEVER THAT, should the Rio Grande "23" Federal Well No. 4H not be directionally drilled and completed with a horizontal drainhole as proposed above, this order shall be null and void, and the operator shall abandon and plug off the Wolfcamp interval within this well.

The operator shall comply with all applicable requirements and conditions set forth in Division Rule 111.

Jurisdiction of this cause is retained for the entry of such 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 - Carlsbad
