



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

December 6, 2006

Chevron
Midcontinent Business Unit
Attn: Sarah C. Rittenhouse
Project Manager
11111 S. Wilcrest, Rm S1031
Houston, TX 77099

Administrative Order NSL-5520

Re: C.L. Hardy Well No. 8
Unit N, Section 20 Twsp 21S, Range 37E
Lea County

Dear Ms. Rittenhouse:

Reference is made to the following:

(a) your application (**administrative application reference No. pTDS06-31937408**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on November 13, 2006, and

(b) the Division's records pertinent to your request.

Chevron USA, Inc. (Chevron) has requested to drill its C.L. Hardy Well No. 8 at an unorthodox Grayburg oil well location, 330 feet from the South line and 1410 feet from the West line (Unit N) of Section 20, Township 21 South, Range 37 East, N.M.P.M., in Lea County, New Mexico. The SE/4 SW/4 of Section 20 will be dedicated to this well to form a standard 40-acre oil spacing and proration unit in the Penrose Skelly-Grayburg Pool (50350).

This location is governed by statewide Rule 104.B(1), which provides that a well shall be located at least 330 feet from any unit boundary, and allows up to four wells per spacing unit. The proposed location is approximately 90 feet from the eastern boundary of the proposed unit.

Chevron's application has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

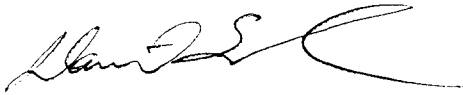
It is our understanding that this location is being requested because Chevron's geologic interpretation indicates that the well can tap into stranded reserves located on the margins of existing spacing units that cannot be effectively drained by wells located at standard locations.

We also understand that working interest ownership of the proposed unit is identical with the unit toward which this location encroaches. Accordingly, no notice of this application is required.

Pursuant to the authority granted me under the provisions of Division Rule 104.F(2), the above-described unorthodox well location is hereby approved.

Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark E. Fesmire', with a long, sweeping horizontal line extending to the right.

for Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Hobbs