



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joaquin Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

May 2, 2007

Southwest Petroleum Land Services, LLC
Attn: James L. Schultz
100 N. Pennsylvania
Roswell, NM 88203

Administrative Order NSL-5612

**Re: McKay Oil Corp.
South Four Mile Draw C Federal Well No. 1H
API No. 30-005-63766
D-22-6S-22E
Chaves County**

Dear Mr. Schultz:

Reference is made to the following:

(a) your application (**administrative application reference No. pCLP07-10034102**) submitted to the New Mexico Oil Conservation Division (the Division) in Santa Fe, New Mexico on April 9, 2007, on behalf of McKay Oil Corp. (McKay), and

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

McKay has requested to complete its South Four Mile Draw C Federal Well No. 1H (API No. 30-005-63766) as a horizontal well at an unorthodox Abo gas well location. The well was commenced from an orthodox surface location 660 feet from the North line and 890 feet from the West line (Unit D) of Section 22, Township 6 South, Range 22 East, N.M.P.M., in Chaves County, New Mexico; intercepts the Abo formation at an orthodox penetration point approximately 1260 feet from the North line and 890 feet from the West line of said Section 22; and proceeds laterally to an unorthodox terminus, or bottom-hole location, 2637 feet from the North line and 1017 feet from the West line (Unit E) of Section 22. The NW/4 of Section 22 will be dedicated to this well in order to form a standard 160-acre gas spacing unit and project area in the West Pecos Slope-Abo Gas Pool (82740).

This pool is governed by the Special Rules and Regulations for the West Pecos Slope-Abo Gas Pool, as amended by Order No. R-9976-D, issued February 4, 2004, which provide for 160-acres units, with wells located at least 660 feet from a unit outer boundary. These rules further mandate that there shall be no more than two wells in this pool in any 160-acre unit. This location is unorthodox because the terminus is less than 660 feet from the southern unit boundary. Also McKay has four wells completed in the Abo in this unit.

Your application on behalf of McKay has been duly filed under the provisions of Division Rules 104.F and 1210.A(2).

It is our understanding that McKay is seeking this location for geologic reasons, in order to penetrate the maximum amount of productive area within this formation in this unit.

It is also understood that McKay owns 100% of the working interest in the adjoining spacing unit to the south. Accordingly, notice of this application to offsetting operators or owners is unnecessary.

Pursuant to the authority granted me under the provisions of Division Rule 104.F(2) and Rule 5 of the Special Rules and Regulations for the West Pecos Slope-Abo Gas Pool, the above-described unorthodox location is hereby approved.

This approval is **CONDITIONED, HOWEVER**, such that this well **SHALL NOT BE PRODUCED** unless and until McKay causes at least two of the following wells to be shut in:

South Four Mile Draw Federal Well No. 1 (API No. 30-005-62309), located 660 feet from the North line and 1780 feet from the West line (Unit C) of Section 22;

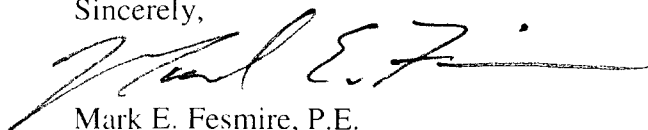
South Four Mile Draw B Federal Well No. 1 (API No. 30-005-63155), located 2058 feet from the North line and 1890 feet from the West line (Unit F) of Section 22; and

Four Mile Draw Federal C Well No. 7H (API No. 30-005-63921), located 660 feet from the North line and 820 feet from the West line (Unit D) of Section 22.

The wells so shut in may be plugged or placed in approved temporary abandonment status, but, in any event, **SHALL REMAIN SHUT IN** so long as the subject well is produced, unless the Division otherwise order following a hearing.

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 stylized flourish at the end.

Mark E. Fesmire, P.E.
Director

MEF/db

cc: New Mexico Oil Conservation Division - Artesia
United States Bureau of Land Management - Roswell