



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

April 5, 1999

PennzEnergy Company
P. O. Box 4616
Houston, Texas 77210-4616
Attention: Don Lankford

Administrative Order NSL-4251

Dear Mr. Lankford:

Reference is made to: (i) PennzEnergy Company's ("PennzEnergy") initial application filed with the New Mexico Oil Conservation Division's ("Division") office in Santa Fe on February 22, 1999 for two unorthodox gas well locations to be drilled to the coal interval of the Vermejo formation in Colfax County, New Mexico; (ii) PennzEnergy's amended application dated March 5, 1999 with attachments; and (iii) the records of the Division in Santa Fe.

The Division Director Finds That:

- (1) PennzEnergy is the owner and operator of the oil and gas mineral rights underlying an area in Colfax County, New Mexico, more commonly referred to as Vermejo Park Ranch, as further described in: (i) a map entitled "Vermejo Ranch" prepared by Pennzoil Exploration & Production Company dated February 19, 1999; and (ii) a legal description that is an attachment, depicted as Exhibit "A", to the "Nonparticipating Royalty Deed," dated September 20, 1996; both aforementioned documents should be incorporated by reference into this order;
- (2) All gas bearing intervals from the surface to the base of the Dakota formation, which includes the Vermejo formation, underlying this area are currently subject to the statewide rules and regulations for gas wells, as set forth in Division Rules 104.B(3)(b) and 104.D(3), which provides for: (i) 160-acre gas spacing and proration units, or drilling units; (ii) requires that wells be located no closer than 660 feet to any outer boundary of such tract nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary nor closer than 1320 feet to the nearest well drilling to or capable of producing from the same pool; and (iii) limits the number of wells for each 160-acre drilling tract to only one;
- (3) Currently all mineral interests from the surface to the base of the Dakota formation are common throughout this lease;
- (4) The subject application has been duly filed under the provisions of Division Rule 104.F;

- (5) Approval of PennzEnergy's proposed: (i) VPR – Canadian River "3120" Well No. 62 (API No. 30-007-20111), to be drilled at an unorthodox gas well location 652 feet from the North line and 1717 feet from the West line (Unit C) of Section 6, Township 31 North, Range 20 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico, within a standard 160-acre gas spacing and proration unit comprising the NW/4 of Section 6; and (ii) VPR – Canadian River "3219" Well No. 361 (API No. 30-007-20112), to be drilled at an unorthodox gas well location 1356 feet from the South line and 1395 feet from the East line (Unit J) of Section 36, Township 32 North, Range 19 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico, within a standard 160-acre gas spacing and proration unit comprising the SE/4 of Section 36: is necessary for topographic reasons;
- (6) As gas exploration and development on the Vermejo Park Ranch lease progresses it is anticipated by PennzEnergy and the supervisor of the Division's District IV office in Santa Fe that additional unorthodox gas well locations will be necessary in order to: (i) minimize disturbance to wildlife habitat; (ii) preserve the scenic beauty; and (iii) minimize construction of wellpads by avoiding rugged terrain when practical;
- (7) A procedure allowing PennzEnergy to drill future gas wells to those gas bearing intervals from the surface to the base of the Dakota formation within the Vermejo Park Ranch lease at locations that are unorthodox based on the well location requirements of Division Rules 104.B(3)(b) and 104.C(4) without further administrative review by the Division Director should be adopted, provided that any such unorthodox location within the above-described Vermejo Park Ranch lease is no closer than the required minimum orthodox distance (660 feet) to: (i) the outer boundary of the lease; or (ii) the New Mexico/Colorado state-line, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary;
- (8) Approval of this application is in the best interest of conservation, will serve to prevent waste, protects correlative rights, exhibits sound engineering principles, and will allow PennzEnergy to develop its gas reserves within the Vermejo Park Ranch lease from the surface to the base of the Dakota formation in a prudent manner; and
- (9) The provisions of this order should be amended if oil and gas mineral interests are divided in any way within the Vermejo Park Ranch area.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rule 104 F(2), PennzEnergy Company ("PennzEnergy") is hereby authorized to drill the following two described wells at unorthodox gas well locations in the Vermejo formation within its Vermejo Park Ranch lease in Colfax County, New Mexico, as follows:

- (i) VPR – Canadian River "3120" Well No. 62 (**API No. 30-007-20111**), to be drilled at an unorthodox gas well location 652 feet from the North line and 1717 feet from the West line (Unit C) of Section 6, Township 31 North, Range 20 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico, within a standard 160-acre gas spacing and proration unit comprising the NW/4 of Section 6; and
- (ii) VPR – Canadian River "3219" Well No. 361 (**API No. 30-007-20112**), to be drilled at an unorthodox gas well location 1356 feet from the South line and 1395 feet from the East line (Unit J) of Section 36, Township 32 North, Range 19 East, as projected into the (Public unsurveyed) Maxwell Land Grant by PennzEnergy's private survey, Colfax County, New Mexico.

It Is Further Ordered That:

(2) Within the Vermejo Park Ranch lease in Colfax County, New Mexico, as further described in: (i) a map entitled "Vermejo Ranch" prepared by Pennzoil Exploration & Production Company dated February 19, 1999; and (ii) a legal description that is an attachment, depicted as Exhibit "A", to the "*Nonparticipating Royalty Deed*," dated September 20, 1996; both aforementioned documents herein incorporated by reference into this order; PennzEnergy is hereby authorized to drill gas wells to any formation from the surface to the base of the Dakota formation that are unorthodox; provided however, that any such unorthodox gas well location is no closer than the required minimum orthodox distance (660 feet) to: (i) the outer boundary of the Vermejo Park Ranch lease; or (ii) the New Mexico/Colorado state-line, nor closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.

(3) Any unorthodox gas well location authorized by Ordering Paragraph No. (2) above shall require the submission of a Division Form C-102, in accordance with Division Rules 1101 and 1102, and the approval of the Supervisor of the Division's District Office in Santa Fe. The Form C-

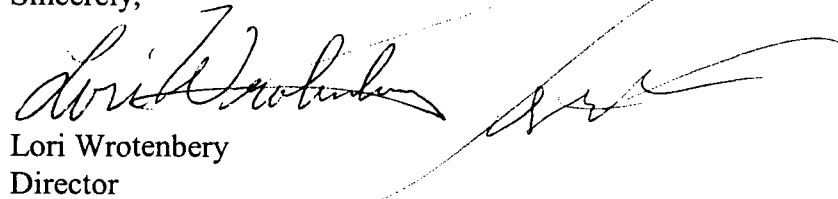
102 for any such well shall include the following additional information: (i) the designated 160 acres to be dedicated to the well is to be highlighted or outlined; (ii) show on the plat the boundary of the lease or the New Mexico/Colorado state-line, if applicable; and (iii) this administrative order (NSL-4251) must be referenced.

(4) The provisions of this order shall be amended if oil and gas mineral interests are divided in any way within the Vermejo Park Ranch area.

(5) The operator of the Vermejo Park Ranch lease is required to notify the supervisor of the Division's District IV office in Santa Fe of: (i) any changes that may effect the intent of this order; and (ii) seek such amendment to this order if the oil and gas mineral interests are changed.

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

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: Roy Johnson, Supervisor District IV- New Mexico Oil Conservation Division, Santa Fe