



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

March 15, 2001

Lori Wrotenbery
Director
Oil Conservation Division

Cross Timbers Operating Company
810 Houston Street - Suite 2000
Fort Worth, Texas 76102-6298
Attention: Tim Welch

Telefax No. (817) 870-1671

Administrative Order NSL-4562
PRELIMINARY APPROVAL

Dear Mr. Welch:

Reference is made to the following: (i) your application dated December 19, 2000; (ii) your supplemental data faxed on February 2, 2001; and (iii) the records of the New Mexico Oil Conservation Division ("Division") in Santa Fe and Aztec: all concerning Cross Timbers Operating Company's ("Cross Timbers") request for a non-standard subsurface gas well location, pursuant to Division Rule 104.F, revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, and 111.C (2), to be applicable to the Ute Dome-Dakota Pool and the Undesignated Ute-Dome-Morrison Pool, for the proposed Ute Mountain Gas Com."M" Well No. 2 (**API No. 30-045-30488**) to be drilled from a surface location 525 feet from the North line and 2030 feet from the West line (Unit C) of Section 11, Township 31 North, Range 14 West, NMPM, as projected into the unsurveyed Ute Mountain Indian Reservation, San Juan County, New Mexico.

It is our understanding that Cross Timbers intends to kickoff from the vertical portion of this wellbore at a depth of 500 feet in a east-northeasterly direction and continue to drill directionally to an estimated true vertical depth of 2,958 feet (3,130 feet MD) at a targeted unorthodox bottomhole location to be approximately 76 feet from the North line and 2483 feet from the East line (Unit B) of Section 11. The Division further understands that it is Cross Timbers' intent to intersect: (i) the top of the Dakota interval at a depth of 2,259 feet (MD) at a point approximately 250 feet from the North line and 2500 feet from the West line of Section 11; and (ii) the top of the Morrison formation at an approximate depth of 2,450 feet (MD) at a point approximately 204 feet from the North line and 2579 feet from the West line of Section 11.

The geologic interpretation submitted indicates that a well drilled to the proposed non-standard subsurface locations will be at a more favorable geologic position within both the Dakota and Morrison formations underlying the entire N/2 of Section 11. Topographic conditions further restrict placement of a drilling pad within the northern portion of Section 11.

Both pools are subject to the statewide rules and regulations [Division Rule 104.C (3)], which provide for 160-acre gas spacing and proration units comprising a single quarter section and require wells to be located no closer than 660 feet to the outer boundary of such unit.

However, approval of a 320-acre lay-down "project area", as defined by Division Rule 111A (9), by combining the two standard 160-acre gas spacing and proration units that comprise the NE/4 and NW/4 of Section 11 appears in this instance to be premature. **It is hereby provided however that** once the well

has been drilled and successfully completed, the respective perforated intervals within both pools can then be evaluated. At such time proper acreage assignments can be given to each pool by dedicating a standard 160-acre unit, if appropriate, or forming a 320-acre project area.

By the authority granted me under the provisions of Division Rule 104.F (2), Cross Timbers is hereby authorized to directionally drill its proposed Ute Mountain Gas Com. "M" Well No. 2 in the manner described above and as close as is reasonably possible to a targeted subsurface location at a depth of 2,958 feet (TVD) or 3,130 feet (MD) considered to be unorthodox 76 feet from the North line and 2483 feet from the East line of Section 11.


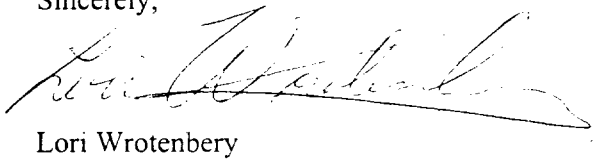
During or upon completion of directional drilling operations, Cross Timbers shall conduct an accurate wellbore survey of the entire wellbore [per Division Rule 111.C (4)] in order that the subsurface bottomhole location, perforations, formation tops and bottoms, as well as the wellbore's true depth and course, may be determined.

Cross Timbers shall notify the supervisor of the Aztec district office of the Division of the date and time the wellbore surveys are to be conducted [as required by Division Rule 111.C (4)] so that they may be witnessed. Cross Timbers shall provide a copy of the wellbore surveys to the Santa Fe and Aztec offices of the Division upon completion.

Failure to comply with the above-stipulated provisions within 90-days after completion of the Ute Mountain Gas Com. "M" Well No. 2 shall: (i) subject the well to cancellation of its authority to produce; and (ii) denial of this order.

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: New Mexico Oil Conservation Division - Aztec
U. S. Bureau of Land Management - Durango
Jim Bruce, Legal Counsel for Cross Timbers Operating Company - Santa Fe