



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

February 13, 1998

Citation Oil & Gas Corporation
8223 Willow Place South - Suite 250
Houston, Texas 77070-5623
Attention: Debra Harris

Administrative Order NSL-3947(SD)

Dear Ms. Harris:

Reference is made to your application dated January 14, 1998, for two additional wells, one of which is considered to be located at an unorthodox gas well location, within an existing non-standard 320-acre gas spacing and proration unit ("GPU") in the Eumont Gas Pool.

Said GPU comprises the E/2 of Section 13, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, which was authorized by Division Administrative Order NSP-381, dated August 7, 1957 and had dedicated thereon the State "H" Well No. 4 (API No. 30-025-03466), located at a standard gas well location 1980 feet from the South line and 990 feet from the East line (Unit I) of said Section 13.

It is our understanding that the two subject wells to be considered in this application are both currently completed as oil wells in deeper horizons and upon issuance of this order will be recompleted up-hole into the Eumont Gas Pool. Pursuant to **Rule 2(b)4** of the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Eumont Gas Pool*," as promulgated by Division Order No. R-8170, as amended, the State "H" Well No. 3-Y (API No. 30-025-03472), located 2310 feet from the North line and 990 feet from the East line (Unit H) of said Section 13 is considered to be a "standard" gas well location for this particular 320-acre unit, however the State "H" Well No. 2 (API No. 30-02503465), located 660 feet from the North line and 1260 feet from the East line (Unit A) of said Section 13 is "unorthodox."

The subject application has been duly filed under the provisions of Rule 104.F of the General Rules and Regulations of the New Mexico Oil Conservation Division and the appropriate provisions of said Special Eumont Gas Pool rules.

By authority granted me under the provisions of **Rule 2(d)** of said special pool rules for the Eumont Gas Pool and Division General Rule 104.F(2) the above-described unorthodox Eumont gas well location for the State "H" Well No. 3-Y is hereby approved.

Also, you are hereby authorized to simultaneously dedicate Eumont gas production from the State "H" Well Nos. 2 and 3-Y with the State "H" Well No. 4. Furthermore, you are hereby

Administrative Order NSL-3947(SD)

Citation Oil & Gas Corporation

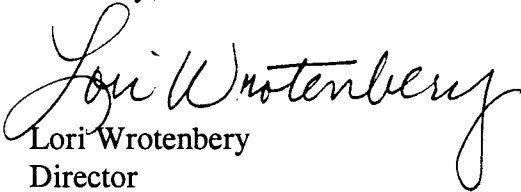
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permitted to produce the allowable assigned the subject GPU from all three wells in any proportion.

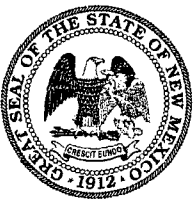
All provisions of said Division Administrative Order NSP-381 shall remain in full force and effect until further notice.

Sincerely,


Lori Wrotenberg
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs
New Mexico State Land Office - Santa Fe
File: NSP-381



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

February 23, 2006

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Citation Oil & Gas Corp.
c/o W. Thomas Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

AMENDED: NMOCD Correspondence Reference No. SD-05-05

Dear Mr. Kellahin:

Reference is made to your letter on behalf of Citation Oil & Gas Corp. of Houston, Texas dated February 22, 2006 concerning the interpretation and meaning of the New Mexico Oil Conservation Division's ("Division") directive of November 2, 2005 issued as Administrative Order SD-05-05 (*pSEM0-527231564*).

For administrative and record keeping purposes the immediate matter is hereby assigned **Division application reference No. pMES0-605438354**.

The initial ordering paragraph on page 3 of Division Administrative Order SD-05-05, be and the same, is hereby amended to read in its entirety as follows:

"IT IS THEREFORE ORDERED THAT development of the Eumont (Yates-Seven Rivers-Queen) Gas Pool (*76480/22800*) within the previously approved 320-acre non-standard gas spacing unit (see Division Administrative Order NSP-381, dated August 7, 1957) comprising the E/2 of Section 13, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, from any of the eleven following-described wells shall be allowed to continue without interruption regardless of its current classification ("oil well" or "gas well") or future reclassification/re-designation:

- (1) State "H" Well No. 1 (**API No. 30-025-08558**) located 660 feet from the South and East lines (Unit P) of Section 13;
- (2) State "H" Well No. 1-Y (**API No. 30-025-03471**) located 330 feet from the South line and 990 feet from the East line (Unit P) of Section 13;
- (3) State "H" Well No. 2 (**API No. 30-025-03465**) located 660 feet from the North line and 1260 feet from the East line (Unit A) of Section 13;
- (4) State "H" Well No. 3 (**API No. 30-025-08559**) located either 2310 feet or 1980 feet from the North line and 1260 feet from the East line (Unit H) of Section 13;
- (5) State "H" Well No. 3-Y (**API No. 30-025-03472**) located 2310 feet from the North line and 990 feet from the East line (Unit H) of Section 13;

- (6) State "H" Well No. 4 (API No. 30-025-03466) located either 2310 feet or 1980 feet from the South line and 990 feet from the East line (Unit I) of Section 13;
- (7) State "H" Well No. 4-Y (API No. 30-025-03473) located 1650 feet from the South line and 990 feet from the East line (Unit I) of Section 13;
- (8) State "H" Well No. 5 (API No. 30-025-03467) located 660 feet from the North line and 2310 feet from the East line (Unit B) of Section 13;
- (9) State "H" Well No. 6 (API No. 30-025-03468) located 1980 feet from the North line and 2310 feet from the East line (Unit G) of Section 13;
- (10) State "H" Well No. 7 (API No. 30-025-03469) located 1980 feet from the South and East lines (Unit J) of Section 13; and
- (11) State "H" Well No. 8 (API No. 30-025-03470) located 660 feet from the South line and 1650 feet from the East line (Unit O) of Section 13.

HOWEVER, should the operator of this 320 acres add any new well or wells, either by drilling or the recompletion of any existing well bore, other than the eleven above-described wells, into the Eumont Gas Pool; then such development within the E/2 of Section 13 shall immediately become subject to reevaluation and all applicable exceptions to the rules governing the Eumont Gas Pool will be required."

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe
File: SD-05-05
NSP-381
NSL-3947 (SD)



USA-381

NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

November 2, 2005

Citation Oil & Gas Corp.
c/o **W. Thomas Kellahin**
P. O. Box 2265
Santa Fe, New Mexico 87504

RE: NMOCD Correspondence Reference No. SD-05-05

Dear Mr. Kellahin:

Reference is made to your letter dated September 28, 2005 and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on behalf of Citation Oil & Gas Corp. of Houston, Texas, concerning past, current, and future development within Eumont (Yates-Seven Rivers-Queen) Gas Pool (76480/22800) underlying the E/2 of Section 13, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, which acreage comprises a single state lease issued by the New Mexico State Land Office (*State Lease No. B-01167-0051*), and the following eleven existing wells:

- (1) State "H" Well No. 1 (**API No. 30-025-08558**) located 660 feet from the South and East lines (Unit P) of Section 13;
- (2) State "H" Well No. 1-Y (**API No. 30-025-03471**) located 330 feet from the South line and 990 feet from the East line (Unit P) of Section 13;
- (3) State "H" Well No. 2 (**API No. 30-025-03465**) located 660 feet from the North line and 1260 feet from the East line (Unit A) of Section 13;
- (4) State "H" Well No. 3 (**API No. 30-025-08559**) located either 2310 feet or 1980 feet from the North line and 1260 feet from the East line (Unit H) of Section 13;
- (5) State "H" Well No. 3-Y (**API No. 30-025-03472**) located 2310 feet from the North line and 990 feet from the East line (Unit H) of Section 13;
- (6) State "H" Well No. 4 (**API No. 30-025-03466**) located either 2310 feet or 1980 feet from the South line and 990 feet from the East line (Unit I) of Section 13;

- (7) State "H" Well No. 4-Y (API No. 30-025-03473) located 1650 feet from the South line and 990 feet from the East line (Unit I) of Section 13;
- (8) State "H" Well No. 5 (API No. 30-025-03467) located 660 feet from the North line and 2310 feet from the East line (Unit B) of Section 13;
- (9) State "H" Well No. 6 (API No. 30-025-03468) located 1980 feet from the North line and 2310 feet from the East line (Unit G) of Section 13;
- (10) State "H" Well No. 7 (API No. 30-025-03469) located 1980 feet from the South and East lines (Unit J) of Section 13; and
- (11) State "H" Well No. 8 (API No. 30-025-03470) located 660 feet from the South-line and 1650 feet from the East line (Unit O) of Section—
13.

For administrative and record keeping purposes this matter was assigned **Division application reference No. pSEM0-527231564.**

Division Administrative Order NSP-381, dated August 7, 1957, initially established the subject 320-acre area (E/2 of Section 13) as a non-standard gas spacing and proration unit ("GPU") in the Eumont Gas Pool for the aforementioned State "H" Well No. 4 said to be located 1980 feet from the South line and 990 feet from the East line in Unit "H" of Section 13.

By Division Administrative Order NSL-3947 (SD), dated February 13, 1998, two additional wells, the above-described State "H" Wells No. 2 and 3-Y, were included within the subject 320-acre GPU.

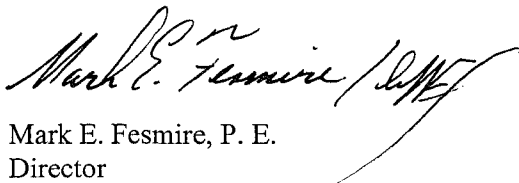
By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Eumont Gas Pool and promulgated "*Special Pool Rules for the Eumont Gas Pool*," which provide for: (i) oil development on standard 40-acre oil spacing units [Rule 2 (B)] and gas development on standard 640-acre gas spacing units [Rule 2 (A)]; (ii) gas development on a well density based on one well per 160 acres [Rule 3 (C)] and absolutely no more than one well per quarter-quarter section within a gas spacing unit [Rule 3 (D)]; (iii) gas well locations to be no closer than 660 feet to any outer boundary of the assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line [Rule 3 (A) (2)]; (iv) oil wells to be no closer than 330 feet to any governmental quarter-quarter section line [Rule 3 (A) (1)]; (v) the strict limitation of only one well per 40-acre oil spacing and proration unit [Rule 3 (B)]; (vi) a strict prohibition on the simultaneous dedication of acreage to Eumont gas and oil wells [Rule 2 (C)]; and (iv) administrative exceptions, in some cases, to these rules [Rules 3 (B), 3 (D), and 4]. **FURTHER**, Rule 6 (B) of the special Eumont pool rules states "[A]ll existing exceptions, whether granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice".

From the information provided and from the Division's records, these eleven wells have extensive production histories in the Eumont Gas Pool prior to the adoption of Division Order No. R-8170-P. The current instances of concurrent production of gas and oil wells and the simultaneous dedication of acreage to gas and oil wells also commenced prior to the adoption of Division Order No. R-8170-P. No additional Eumont wells have been included within the E/2 of Section 13 since the approval of Division Administrative Order NSL-3947 (SD) in early 1998.

IT IS THEREFORE ORDERED THAT development of the Eumont Gas Pool within the E/2 of Section 13 with any of the eleven above-described wells shall be allowed to continue without interruption. **HOWEVER**, should the operator of this 320 acres within the Eumont Gas Pool add new wells or cause any existing wellbore, other than the eleven above-described wells, to be recompleted within the vertical limits of the Eumont Gas Pool, then Eumont development within the E/2 of Section 13 shall be subject to reevaluation and exceptions to the applicable rules will be required.

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

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division -- Hobbs
New Mexico State Land Office -- Santa Fe
File: NSP-381
NSL-3947 (SD)