



NEW MEXICO ENERGY, MINERALS  
& NATURAL RESOURCES DEPARTMENT

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

May 1, 2000

RECEIVED

MAY - 8 2000

NON-OP

Southwest Royalties, Inc.  
P. O. Box 11390  
Midland, Texas 79702-8390

Attention: C. M. Bloodworth

Re: *Administrative application for the creation of a non-standard 280-acre gas spacing and proration unit within the Scarborough-Yates-Seven Rivers Pool to comprise the S/2 NE/4, NE/4 SE/4, and S/2 SE/4 of Section 30, Township 26 South, Range 37 East, NMPM, Lea County, New Mexico.*

Dear Mr. Bloodworth:

Reference is made to your application dated February 10, 2000 for the formation of the above-described non-standard 280-acre gas spacing and proration unit for gas production from the unprorated Scarborough-Yates-Seven Rivers Pool. This unit to be dedicated to Southwest Royalties, Inc.'s existing Eaves "B" Well No. 20 (API No. 30-025-32274) located 1414 feet from the South line and 429 feet from the East line (Unit I) of Section 30.

My review of this application indicates that the Scarborough-Yates-Seven Rivers Pool is subject to: (i) the "Special Rules and Regulations for the Scarborough Yates-Seven Rivers Pool," as established by Division Order No. R-2999, issued in Case No. 3316 and dated November 23, 1965, which requires that oil wells be developed on 40-acre spacing and production be subject to an assigned allowable and that gas wells be spaced on 640-acre units consisting of a governmental section, with wells to be located no closer than 1980 feet to the outer boundary of the section and no closer than 330 feet to any governmental quarter-quarter section line; and, (ii) since Order No. R-2999 did not assess production limitations of any kind on gas wells within this pool, then Division Rule 104.D (3), which restricts the number of producing wells within a single gas spacing unit within "non-prorated" pools to only one.

Due to: (i) the close proximity of this pool to the Jalmat Gas Pool; (ii) the variance between of the rules governing these similar gas pools; (iii) the developing controversy between certain operators on rule interpretations and development within the Jalmat Gas Pool; and (iv) attempts by many operators to reorient acreage and seek smaller than normal non-standard gas spacing and proration units in other non-prorated gas pools only for the purpose of avoiding this one well per standard unit limit, the Division's review of this request and its commitment to protecting correlative rights and preventing waste will best be served through the hearing process.

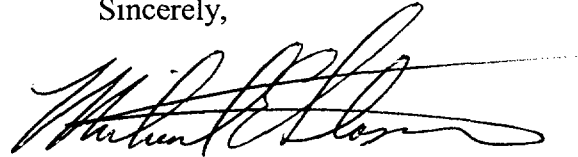
BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Case No. 12426 (De Novo) Exhibit No. 2  
Submitted by:  
Southwest Royalties, Inc.  
Hearing Date: November 8, 2000

This application will therefore be set for hearing before a Division Hearing Examiner on the next available docket scheduled for June 1, 2000 and will be advertised in the following manner:

*Application of Southwest Royalties, Inc. for a non-standard gas spacing and proration unit and an unorthodox gas well location, Lea County, New Mexico. Applicant seek exceptions to Rules 3 and 6 of the "Special Rules and Regulations for the Scarborough Yates-Seven Rivers Pool", as promulgated by Division Order No. R-2999, in order to: (i) establish a non-standard 280-acre gas spacing and proration unit comprising the S/2 NE/4, NE/4 SE/4, and S/2 SE/4 of Section 30, Township 26 South, Range 37 East (which is located approximately seven miles south of Jal, New Mexico) within the Scarborough Yates-Seven Rivers Pool; and (ii) to dedicate thereon its existing Eaves "B" Well No. 20 (API No. 30-025-32274) located at an unorthodox gas well location 1414 feet from the South line and 429 feet from the East line (Unit I) of Section 30.*

Thank you for your cooperation and understanding, should you have any questions concerning this matter, your legal counsel should be able to assist you.

Sincerely,



Michael E. Stogner  
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Hobbs  
U. S. Bureau of Land Management - Carlsbad  
U. S. Bureau of Land Management - Roswell  
Kathy Valdes, NMOCD - Santa Fe

June 15th

July 1  
July 13