



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON

Governor
Betty Rivera
Cabinet Secretary

August 8, 2002

Lori Wrotenbery
Director
Oil Conservation Division

OXY USA WTP Limited Partnership
P. O. Box 4294
Houston, Texas 77210-4294



Attention: Richard E. Foppiano

Re: 2nd point of contact with applicant concerning OXY USA WTP Limited Partnership's administrative application (**application reference No. pKRV0-221135459**) for an exception to Division Rule 104.B (1) for the existing Sweet & Sour State Well No.1 (**API No. 30-15-31314**) located 1310 feet from the South line and 660 feet from the East line (Unit P) of Section 24, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico.

Dear Mr. Foppiano:

In accordance with recently enacted "Engineering Bureau" policy I am contacting you concerning my letter dated July 31, 2002 (see copy attached) concerning the subject application and to remind you that additional information is needed to complete our review of your request. Again, according to this new policy, if the necessary information is not submitted, your application will be returned.

I have also enclosed a copy of an official "Notice" from the Division dated October 25, 1999 concerning the Division's current well location rules and, in particular, this situation.

The additional information can be faxed to (505) 476-3471, or mailed to the Division in Santa Fe. Thank you.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division – Artesia
New Mexico State Land Office – Santa Fe
W. Thomas Kellahin, Legal Counsel for OXY USA WTP Limited Partnership – Santa Fe



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OXY USA WTP Limited Partnership
P. O. Box 4294
Houston, Texas 77210-4294

Attention: Richard E. Foppiano



Re: *Administrative application for an exception to Division Rule 104.B (1) for OXY USA WTP Limited Partnership's existing Sweet & Sour State Well No. 1 (API No. 30-15-31314) located 1310 feet from the South line and 660 feet from the East line (Unit P) of Section 24, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico.*

Dear Mr. Foppiano:

This letter acknowledges receipt of your administrative application dated August 25, 2001 for an unorthodox Wolfcamp oil well location for the above described well to be recompleted within a proposed standard 40-acre oil spacing and proration unit within either the Undesignated Empire-Wolfcamp Pool (22420) or Undesignated Logan Draw-Wolfcamp Pool (96960) comprising the SE/4 SE/4 (Unit P) of Section 24, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico. Please note that the Division did not receive this application until July 29, 2002. It has been assigned NMOCD application reference No. *pKRV0-221135459*. Please refer to this number in future correspondence with the Division.

To assure that correlative rights are adequately protected between the mineral interest owners in the NE/4 SE/4 (Unit I) of Section 24, being a state lease for common schools issued by the New Mexico State Land Office (State Lease No. B-08318), and the SE/4 SE/4 (Unit P) of Section 24, being a separate state lease for common schools issued by the New Mexico State Land Office (State Lease No. L-04672), please provide the Division with a listing identifying all mineral interests (royalty, overriding royalty, and working) in both quarter-quarter sections and show the percentage owned in each quarter-quarter section. This information will reassure not only that all interest is common but also identical. Also in accordance with Division Rule 111.B (2) (3), and (4) please provide the Division with a directional survey of this wellbore. Further, please provide the Division with the actual top and base of the Wolfcamp formation within the wellbore and the proposed (or existing) perforations within the Wolfcamp interval. This information is necessary to determine which state lease the perforations are actually located.

Since the submitted information is insufficient to review, the application was ruled as incomplete on July 31, 2002. Please submit the above stated information by Wednesday, August 7, 2002.

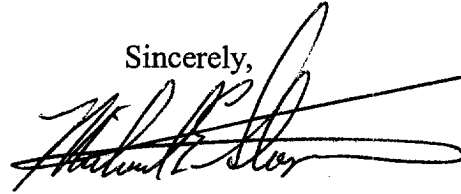
OXY USA WTP Limited Partnership

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In accordance with recently enacted policy the Division cannot proceed with your application until the required information is submitted. Upon receipt, the Division will continue to process your application. The additional information can be faxed to (505) 476-3471, or mailed to the Division in Santa Fe. If the necessary information is not submitted, your application will be returned to you. Thank you for your assistance in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal flourish extending to the right.

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division – Artesia
New Mexico State Land Office – Santa Fe
W. Thomas Kellahin, Legal Counsel for OXY USA WTP Limited Partnership – Santa Fe



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

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

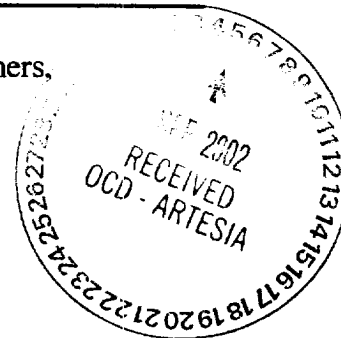
NOTICE

TO: All Oil and Gas Operators, Mineral Interest Owners,
and Interested Parties

FROM: Lori Wrotenbery, Director *LW*

SUBJECT: Implementation of Amended Division Rule 104

DATE: October 25, 1999



Amendments to Division Rule 104 "Well Spacing and Location," adopted by the New Mexico Oil Conservation Commission in Order R-11231 (Case 12119) on August 12, 1999, became effective August 31, 1999. Attached to this notice are copies of Order No. R-11232, with the amended Rule 104 attached, and the recently amended Rule 1207 concerning notice requirements.

Summary of Changes

The amendments made five main changes in Rule 104:

- (1) the rule has been shortened and reorganized;
- (2) well location setbacks for all gas development on 160-acre spacing throughout the State are now standardized at 660 feet from the outer boundary of the quarter section line;
- (3) well location setbacks for deep gas development on 320-acre spacing in Southeast New Mexico have been relaxed from 1650 feet from an end boundary to 660 feet;
- (4) one optional infill well is now allowed within 320-acre deep gas units in Southeast New Mexico; and
- (5) interior 330-foot setbacks from quarter-quarter section lines for both 160-acre and 320-acre gas units governed by Rule 104 have been reduced to 10 feet.

Effect of Changes

Since the primary objectives of the rule changes were to grant operators increased flexibility in locating wells and decrease the number of applications for unorthodox locations, all future location

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exceptions will require substantial justification, *i.e.*, unusual circumstances. Please also note the recent changes made to the notice requirements for unorthodox locations found in Division Rule 1207.A(2).

Furthermore, the well location requirement for oil wells on 40-acre spacing has not changed and remains 330 feet from the quarter-quarter section. Operators need to be wary if a well's main objective is a deeper gas-producing interval but there is the possibility of oil production and the location is closer to an interior quarter-quarter section line than 330 feet. ~~In order to complete the well in a shallower oil-producing horizon, the operator will be required to obtain an exception for the unorthodox oil well location.~~ Location exceptions in this situation will not be granted unless unusual circumstances justify the location, and the closer a well is to a neighboring property, the harder it will be to obtain an exception. For example, if the well is only 10 feet off a neighboring property, it is highly unlikely an exception will be granted.

Regarding the new provision authorizing one infill well in a 320-acre deep gas unit in Southeast New Mexico, application can be made to adopt or amend special pool rules to limit the number of wells per spacing unit in any pool where infill wells are not justified. The notice requirements for special pool rules were also recently amended to accommodate this type of action. See Division Rule 1207.A(4).

Unless otherwise provided by special pool rules or amended Rule 104 (*e.g.*, the infill provision for deep gas pools in Southeast New Mexico), only **one** well per spacing unit is permitted in non-prorated pools. The Division Director, however, may grant administrative exceptions in appropriate circumstances.

Effect on Existing Orders

Any existing special pool rule or other order specific to well locations (*e.g.*, a production penalty on an unorthodox well location now standard under amended Rule 104) shall remain in full force and effect until the order is amended. Operators should review these orders to determine whether to file applications to conform the orders to amended Rule 104.

In the near future, a hearing will be held before a Division Hearing Examiner addressing the few deep gas pools in Southeast New Mexico still spaced on 160 acres. At the hearing, the Division will consider whether to issue an order listing these pools and setting forth setback requirements mirroring, if applicable, the setbacks for shallow gas wells in Southeast New Mexico.

Division Memoranda dated July 27, 1988 and August 3, 1990 concerning the interpretation of old Rule 104 are hereby withdrawn.

Attachments