

It is further understood that the original location for the Loco Hills Welch Well No. 5 was to be 1650 feet from the South line and 660 feet from the West line of Section 4; however, a pipeline prevented HEYCO from drilling at this location. The location therefore was moved 200 feet south. However, nothing contained within this application indicates why a move 200 feet to the north, which would have resulted in a standard oil well location for this 40-acre unit, could not have been made in order to avoid this pipeline.

Currently, under Division Rule 505.A, the top unit depth bracket allowable for the Loco Hills-Cisco Pool is 275 barrels of oil per day and 550 MCF/D of casinghead gas.

This application has been duly filed under the provisions of 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.

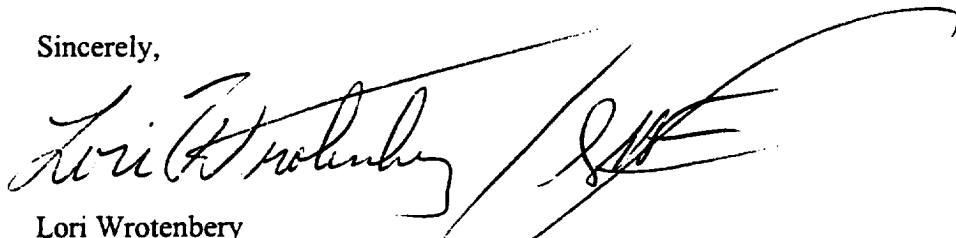
By the authority granted me under the provision of Division Rule 104.F (2), the above-described unorthodox Cisco oil well location is hereby approved; however, since the circumstances surrounding this unorthodox completion in the Cisco formation did not follow acceptable regulatory and industry practices, a production penalty should be assessed the Loco Hills-Cisco production.

This well being 60.6 % closer to the south line of this 40-acre tract than allowed (200 feet divided by 330 feet), an acreage factor of 0.40 shall be assigned this well and unit towards this pool's top depth bracket allowable.

Please note that in the future, HEYCO, as a prudent operator, should take all necessary steps to locate wells at a location considered to be standard for all possible zones to be encountered and should be more cognizant of well location requirements for different producing horizons within the immediate area of operations.

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

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read 'Lori Wrotenbery', is written over the signature line and extends across the middle of the page.

Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs
U. S. Bureau of Land Management - Carlsbad