

September 20, 2000

Kerr-McGee Oil & Gas Onshore, L.L.C.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Telefax No. (505) 982-2151

Administrative Order NSL-4386-A (SD)

Dear Mr. Bruce:

Reference is made to the following: (i) your initial application dated August 11, 2000 on behalf of the operator Kerr-McGee Oil & Gas Onshore, L.L.C. ("Kerr-McGee"); (ii) the New Mexico Oil Conservation Division's ("Division") initial response by letter on or about August 17, 2000 from Mr. Michael E. Stogner, Chief Hearing Officer/Engineer in Santa Fe requesting that notice to all off-set operators be sent; (iii) your supplemental data submitted to the Division on August 28, 2000; (iv) the Division's records in Santa Fe, including the file in Case No. 11189 and Administrative Order NSL-4386 (SD): all concerning Kerr-McGee's request to amend Division Administrative Order NSL-4386 (SD):

- (a) by eliminating the production penalty currently assessed gas production from the Indian Basin-Upper Pennsylvanian Gas Pool from the existing 674.28-acre gas spacing and proration unit ("GPU") comprising all of irregular Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico; and
- (b) in order to show well rededication to this GPU.

The Division Director Finds That:

(1) The Indian Basin-Upper Pennsylvanian Gas Pool currently comprises the following described area in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 23 EAST, NMPM

Section 3:	W/2
Section 4:	All
Sections 8 and 9:	All
Section 10:	W/2

Section 15:	W/2
Sections 16 through 30:	All
Sections 32 through 35:	All
Section 36:	W/2

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM

Section 19:	All
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TOWNSHIP 22 SOUTH, RANGE 23 EAST, NMPM

Section 1:	W/2
Sections 2 through 5:	All
Sections 8 through 11:	All
Section 12:	W/2
Section 13:	W/2
Sections 14 through 17:	All
Section 21:	N/2
Section 22:	All;

(2) The Indian Basin-Upper Pennsylvanian Gas Pool is a prorated gas pool currently governed by the “*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Gas Pool*,” as promulgated by Division Order No. R-8170, as amended, which require standard 640-acre GPU's with wells to be located no closer than 1650 feet from the outer boundary of the GPU nor closer than 330 feet from any governmental quarter-quarter section line or subdivision inner boundary;

(3) All of irregular Section 2 is currently simultaneously dedicated to Kerr-McGee's: (i) Conoco State Gas Com. Well No. 1 (**API No. 30-015-10619**), located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of Section 2; and (ii) Conoco State Gas Com. Well No. 2 (**API No. 30-015-28510**), located at an unorthodox gas well location 800 feet from the South and West lines (Unit M) of Section 2;

(4) Division Order No. R-10359, issued in Case No. 11189 and dated May 2, 1995, provided for: (i) the drilling of the Conoco State Gas Com. Well No. 2 (**API No. 30-015-28510**), located at an unorthodox infill gas well location 800 feet from the South and West lines (Unit M) of Section 2; (ii) the simultaneous dedication of this 674.28-acre GPU to both the Conoco State Gas Com. Well No. 1 (**API No. 30-015-10619**), located at a standard gas well location 1775 feet from the North line and 1980 feet from the West line (Unit F) of Section 2 and the aforementioned Conoco State Gas Com. Well No. 2; and (iii) assigned this GPU an acreage factor of 0.62 for gas prorationing purposes, which assesses a 38% production penalty on Indian Basin-Upper Pennsylvanian Gas Pool production from this GPU;

(5) By Division Administrative Order NSL-4386 (SD), dated January 11, 2000 Kerr-McGee was authorized to drill and complete its Conoco State Gas Com. Well No. 6 (**API No. 30-015-30925**) as a second-infill gas well within this GPU at an unorthodox gas well location 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2. Administrative Order NSL-4386 (SD) further provided for: (i) the simultaneous dedication of this acreage to the

Conoco State Gas Com. Wells No. 1, 2, and 6; and (ii) reconfirmed the production penalty originally assessed this GPU by Division Order No. R-10359;

(6) It is our understanding that at this time Kerr-McGee:

- (i) has plugged and abandoned the Conoco State Gas Com. Well No. 1 in Unit "F" of Section 2;
- (ii) has drilled as its replacement the Conoco State Well No. 7 (**API No. 30-015-30875**) at a standard infill gas well location within this 674.28-acre GPU 1706 feet from the North line and 1828 feet from the West line (Unit F) of Section 2; and
- (iii) intends to temporarily abandon the Conoco State Gas Com. Well No. 2 upon issuance of this order; and

(7) At the request of the Division the applicant has provided notice to all offset operators of this application.

It Is Therefore Ordered That:

(1) The existing 674.28-acre gas spacing and proration unit ("GPU") within the Indian Basin-Upper Pennsylvanian Gas Pool that comprises all of irregular Section 2, Township 22 South, Range 23 East, NMPM, Eddy County, New Mexico is to be simultaneously dedicated to Kerr-McGee Oil & Gas Onshore, L.L.C.'s: (i) existing Conoco State Gas Com. Well No. 6 (**API No. 30-015-30925**), located at an unorthodox gas well within this GPU [approved by Division Administrative Order NSL-4386 (SD), dated January 11, 2000] 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2; and (ii) recently drilled Conoco State Well No. 7 (**API No. 30-015-30875**), located at a standard gas well location within this GPU 1706 feet from the North line and 1828 feet from the West line (Unit F) of Section 2.

(2) Kerr-McGee is hereby permitted to produce the allowable assigned the subject GPU from both wells in any proportion.

It Is Further Ordered That:

(3) Division Order No. R-10359, issued in Case No. 11189 and dated May 2, 1995, shall be placed in abeyance until further notice.

(4) Only that portion of Division Administrative Order NSL-4386 (SD) which authorized the unorthodox gas well location of the above-described Conoco State Gas Com. Well No. 6 shall remain in full force and affect; all other provisions not in conflict with this order shall remain in full force and affect until further notice.

(5) Jurisdiction of this cause 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 - Artesia
U. S. Bureau of Land Management – Carlsbad
W. Thomas Kellahin, Counsel for Marathon Oil Company – Santa Fe
File: Case 11189