

**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

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

March 30, 2000

APR 1 1999

Bonneville Fuels Corporation
1660 Lincoln - Suite 2200
Denver, Colorado 80264
Attention: Bob Schwering

Telefax No. (303) 863-1558

Administrative Order NSL-4425(NSBHL)

Dear Mr. Schwering:

Reference is made to the following: (i) your initial application dated March 7, 2000; (ii) the records of the New Mexico Oil Conservation Division in Santa Fe ("Division"); and (iii) a meeting on Monday, March 20, 2000 in Santa Fe between Mr. Michael E. Stogner, Division Chief Hearing Officer/Engineer, Mr. Ronald A. Bookman, Land Manager for Bonneville Fuels Corporation ("Bonneville") and Ms. Sharon R. McDonald, Landman for Bonneville: all concerning Bonneville's request for exception to Division Rules 111.A (13) and 111.C (2).

The Division Director Finds That:

- (1) The subject application has been duly filed under the provisions of Division Rules 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, and 111.C(2);
- (2) By Order No. R-8954 issued in Case No. 9684, dated May 31, 1989 and made effective June 1, 1989, the Division created and defined the Foster Draw-Delaware Gas Pool for the production of gas from the Delaware Mountain Group. The horizontal limits for this pool, as currently designated, include the following lands in Eddy County, New Mexico:

TOWNSHIP 21 SOUTH, RANGE 26 EAST, NMPM

Irregular Section 1: Lots 25, 26, 31, 32, 33, 34, 39, and 40;

- (3) The Foster Draw-Delaware Gas Pool is currently governed under Division Rule 104.C (3), which provides for 160-acre gas spacing and proration units and requires wells be located no closer than 660 feet to any outer boundary of such unit and no closer than 10 feet to any quarter-quarter section or subdivision inner boundary;
- (4) The "project area" proposed by Bonneville is to consist of a single standard 164.66-acre gas spacing and proration unit comprising Lots 33, 34, 39, and 40 of Irregular Section 1;

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- (5) It is our understanding that Bonneville intends to drill its proposed Avalon "1" Federal Well No. 2 from a surface location 2686 feet from the South line and 1999 feet from the East line of irregular Section 1, drill vertically to an approximate depth of 1,700 feet, kick-off in a south-southeasterly direction, build up to a maximum angle of 36 degrees, and directionally drill to a total depth of 3,820 feet (TVD), or 4,112 feet (MD), at an approximated target point 1900 feet from the South line and 1800 feet from the East line (Lot 34/Unit R) of irregular Section 1;
- (6) The "penetration point", as defined by Division Rule 111.A (6), is expected to be encountered at a depth of 2,350 feet (TVD) and at a target point, considered to be unorthodox, 2447 feet from the South line and 1939 feet from the East line of Irregular Section 1;
- (7) Further, it is Bonneville's intent to only complete this well and produce gas from perforations within that portion of the wellbore that meet the orthodox setback requirements for the Foster-Delaware Gas Pool, thereby necessitating the need for an exception to Division Rule 111.C (2);
- (8) It appears that the applicant has satisfied all of the appropriate requirements prescribed in Division Rules 111.C (2) and 104.F; therefore, the subject application should be approved and a modified producing area that meet the orthodox setback requirements for the Foster-Delaware Gas Pool that is applicable to the actual pay section encountered within this wellbore should be established based on Bonneville's proposed directional drilling plan; and
- (9) The provisions contained within this order and all other applicable provisions of Division Rule 111 should govern the subject 164.66-acre project area.

It Is Therefore Ordered That:

(1) By the authority granted me under the provisions of Division Rule 104.F (2), the above-described application of Bonneville Fuels Corporation ("Bonneville") for exception to Division Rules 111.A (13) and 111.C (2) for its proposed Avalon "1" Federal Well No. 2 to be drilled from a surface location 2686 feet from the South line and 1999 feet from the East line of Irregular Section 1, Township 21 South, Range 26 East, NMPM, Eddy County, New Mexico to targeted bottomhole location at a depth of 3,820 feet (TVD), or 4,112 feet (MD), 1900 feet from the South line and 1800 feet from the East line (Lot 34/Unit R) of irregular Section 1, is hereby approved.

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(2) Lots 33, 34, 39, and 40 of Irregular Section 1, being a standard 164.66-acre gas spacing and proration unit/project area for the Foster Draw-Delaware Gas Pool, is to be dedicated to this well.

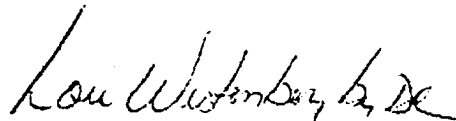
(3) The applicable drilling window or modified producing area that meet the orthodox setback requirements for the Foster-Delaware Gas Pool shall apply only to the completion or perforated interval within this pool of Bonneville's proposed Avalon "1" Federal Well No. 2.

(4) The operator shall comply with all applicable requirements and conditions set forth in Division Rule 111.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



LORI WROTENBERY
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
Ms. Sharon R. McDonald, Landman - Bonneville Fuels Corporation, Denver
Mr. Ronald A. Bookman, Land Manager - Bonneville Fuels Corporation, Denver