

July 9, 1997

Mallon Oil Company
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-~~3828~~

Dear Mr. Bruce:

Reference is made to: (i) your application dated May 22, 1997, on behalf of Mallon Oil Company ("Mallon"), for an unorthodox Morrow gas on an existing 320-acre, more or less, gas spacing and proration unit comprising the E/2 equivalent of Section 3, Township 24 South, Range 26 East, NMPM, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico; (ii) to your subsequent correspondence dated May 23, June 2, and June 4, 1997; and, (iii) Division records in Santa Fe.

The Division Director Finds That:

- (1) Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of said Section 3, which comprises 319.18 acres, is within the horizontal limits of the South Carlsbad-Morrow Gas Pool;
- (2) Rules, regulations, and policies currently governing the South Carlsbad-Morrow Gas Pool include, but are not necessarily limited to, the following:
 - (i) the "*General Rules for the Prorated Gas Pools of New Mexico/Special Rules and Regulations for the South Carlsbad-Morrow Gas Pool*", as promulgated by Division Order No. R-8170, as amended, which includes provisions for 320-acre spacing and requirements for well locations to be no closer than 660 feet to the side boundary nor 1980 feet from the end boundary of the proration unit nor closer than 330 feet to any quarter-quarter section or subdivision inner boundary;
 - (ii) Division Order No. R-10328, issued by the New Mexico Oil Conservation Commission in Case 11211 on March 27, 1995, which order suspended gas prorationing in the South Carlsbad-Morrow Gas Pool; and,
 - (iii) Division General Rule 104.D(3), which limits the number of wells in a single spacing unit in non-prorated pools to one;
- (3) South Carlsbad-Morrow gas production from the subject 319.18-acre gas spacing and proration unit is currently dedicated to the Bell "3" State Com Well No. 1 (API No.