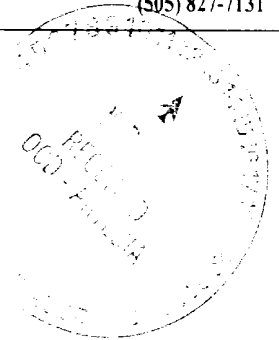




**NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT**

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

March 9, 2000



**Marbob Energy Corporation
P. O. Box 227
Artesia, New Mexico 88211-0227**

Attention: Dean Chumbley

Re: Administrative application dated March 6, 2000 for an exception to Division Rule 104.C (2), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, to drill the proposed Primero Federal Well No. 2 (API No. 30-015-30990) at an unorthodox gas well location 2116 feet from the South line and 542 feet from the West line (Unit L) of Section 23, Township 26 South, Range 24 East, NMPM, Undesignated South Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico.

Dear Mr. Chumbley:

Pursuant to the attached notice dated October 25, 1999 and the intent of the recent changes to Division Rule 104 with respect to deep gas wells in southeast New Mexico, this application will not be considered under the administrative process. In order for the Division to establish suitable grounds and acceptable criteria for issuing such exceptions, this application will be set for hearing pursuant to Rule 104.F(5). The next available docket is for April 6, 2000 examiner's hearing. Thank you for your cooperation, understanding, and continued support in making this very important portion of New Mexico's conservation Rules a meaningful success.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: **New Mexico Oil Conservation Division - Artesia**
U. S. Bureau of Land Management - Carlsbad
Kathy Valdes, NMOCD - Santa Fe
Mr. William F. Carr, Legal Counsel for Marbob Energy Corporation - Santa Fe
Ms. Lori Wrotenbery, Director NMOCD - Santa Fe
Mr. Steve Salzman - U. S. Bureau of Land Management, Santa Fe



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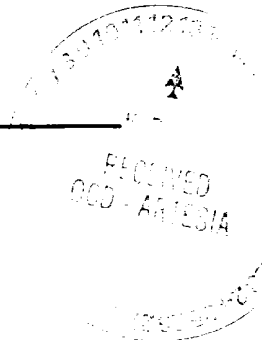
NOTICE

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

FROM: Lori Wrotenbery, Director

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

October 25, 1999

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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