



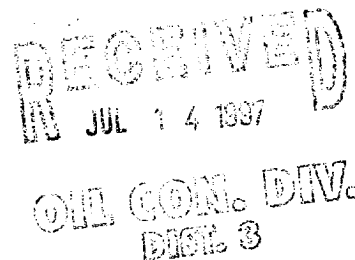
STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

2040 S. PACHECO
SANTA FE, NEW MEXICO 87505
(505) 827-7131

July 7, 1997

Elm Ridge Resources, Inc.
c/o Permits West, Inc.
37 Verano Loop
Santa Fe, New Mexico 87505
Attention: Brain Wood



Administrative Order NSL-3825

Dear Mr. Wood:

Reference is made to your application dated May 12, 1997 on behalf of the operator, Elm Ridge Resources, Inc., for a non-standard Gallup oil well location for the existing Apache "18" Well No. 2 (API No. 30-039-25548), which was drilled in late 1995 and completed in the Basin-Dakota Pool at a standard gas well location 890 feet from the North line and 1450 feet from the East line (Unit B) of Section 18, Township 24 North, Range 5 West, NMPM, Rio Arriba County, New Mexico. This well was the subject of Division Administrative Order NSP-1735, dated August 8, 1995 in which a 160-acre non-standard gas spacing and proration unit comprising the NE/4 of said Section 18 was dedicated to the Dakota gas production.

It is our understanding that Elm Ridge Resources, Inc. intends to open up additional perforations within the Dakota interval and to also complete up-hole into the Gallup formation in an attempt to establish oil production.

Said well location is within two miles of both the Devil's Fork-Gallup Associated Pool and the Otero-Gallup Oil Pool. The Devil's Fork-Gallup Associated Pool is governed by the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico/Special Rules and Regulations for the Devils Fork-Gallup Associated Pool*", as promulgated by Division Order No. R-5353, as amended, which provides for 160-acre oil spacing and proration units with wells to be located no closer than 790 feet to any quarter section line nor closer than 330 feet to an quarter-quarter section line or subdivision inner boundary. The Otero-Gallup Oil Pool is subject to the statewide rules and regulations, as promulgated by Rule 104.C(1)(a), which provides for 40-acre oil spacing and proration units, or drilling units, and requires that wells be located no closer than 330 feet to the outer boundary of a single 40-acre oil spacing and proration unit. In either case the subject well location is unorthodox.

Administrative Order NSL-3825

Elm Ridge Resources, Inc.

July 7, 1997

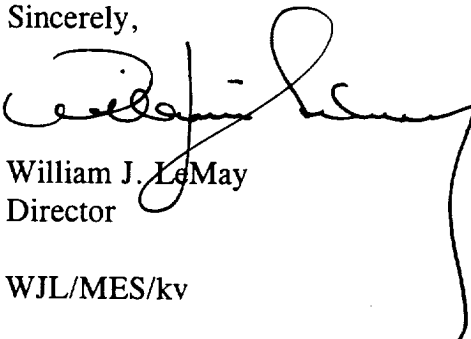
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The subject application has been duly filed under the provisions of Rule 104.F of the General Rules and Regulations of the New Mexico Oil Conservation Division ("Division"), revised by Division Order No. R-10533, issued by the Oil Conservation Commission in Case 11,351 on January 18, 1996.

By the authority granted me under the provisions of Rule 2(c) of said "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest and Southeast New Mexico/Special Rules and Regulations for the Devils Fork-Gallup Associated Pool*" and/or Division General Rule 104.F(2), the above-described unorthodox Gallup oil well location is hereby approved.

Upon completion of this well it shall be determined by the supervisor of the Aztec District office of the Division as to which of the two aforementioned pools the Gallup oil production is to be attributed and which pool will be extended to include said well. If it is ultimately determined that this well is to be included within the Devil's Fork-Gallup Associated Pool a standard 160-acre oil spacing and proration unit comprising the NE/4 of said Section 18 shall be dedicated to said well, if this well is included in the Otero-Gallup Oil Pool the 40-acre tract comprising the NW/4 NE/4 of said Section 18 shall be dedicated to said well.

Sincerely,



William J. LeMay
Director

WJL/MES/kv

cc: Oil Conservation Division - Aztec
U.S. Bureau of Land Management - Farmington
File: NSP-1735