



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 1, 2004

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

**Chevron U.S.A., Inc.
15 Smith Road
Midland, Texas 79705**

Attention: Mike Howell
MAHO@chevrontexaco.com

Administrative Order NSL-5062

Dear Mr. Howell:

Reference is made to the following: (i) your application (*administrative application reference No. pSEM0-413440619*) submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe on May 12, 2004; and (ii) the Division's records: all concerning Chevron U.S.A., Inc.'s ("Chevron") request for an unorthodox "effective infill" oil well location within a former standard 40-acre oil spacing and proration unit comprising the NW/4 NE/4 (Unit B) of Section 28, Township 21 South, Range 37 East, NMPM, Penrose Skelly (Grayburg) Pool (50350), Lea County, New Mexico.

This application has been duly filed under the provisions of Division Rule 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.

It is the Division's understanding that initial development of Grayburg oil production within this 40-acre unit commenced in the 1960 when Gulf Oil Corporation recompleted its Central Drinkard Unit Well No. 102, formerly the Eunice King Well No. 11 (API No. 30-025-06847), located at a standard oil well location 554 feet from the North line and 2086 feet from the East line of Section 28, from the Drinkard Pool (19190) into the Penrose Skelly (Grayburg) Pool. Penrose Skelly (Grayburg) oil production ceased in this well in January, 1976 and, in January, 1994, this well was plugged and abandoned.

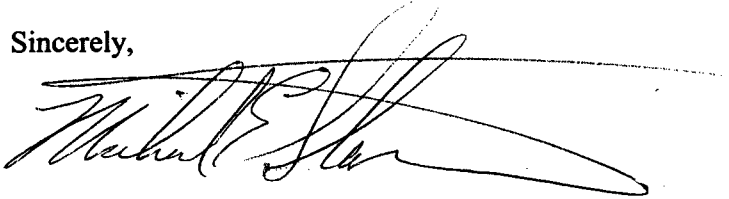
It is further understood that such unorthodox location is necessitated for geologic and engineering reasons in that this location is approximately equidistance to other offsetting Penrose Skelly (Grayburg) oil wells within the Eunice King fee lease. The proposed effective infill oil well location will enable Chevron to further develop and deplete the Grayburg reserves within this lease that might not otherwise be recovered.

Furthermore, the Division understands that the N/2 of Section 28 comprises a single fee lease (Eunice King lease) with common mineral interest in which Chevron is the leasehold operator; therefore, there are no adversely effected offsets to the subject 40-acre tract within the Grayburg interval.

By the authority granted me under the provisions of Division Rule 104.F (2), the following described well to be drilled at an unorthodox Grayburg oil well location within this former 40-acre unit is hereby approved:

Eunice King Well No. 28
1250' FNL & 1340' FEL.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", written over a horizontal line.

Michael E. Stogner
Engineer/Hearing Officer

MS/mes

cc: New Mexico Oil Conservation Division – Hobbs.