



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

June 4, 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-5067 (SD)

Dear Mr. Howell:

Reference is made to the following: (i) your application (***administrative application reference No. pSEM0-413439921***) 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 "infill" oil well location within an existing standard 40-acre oil spacing and proration unit comprising the SE/4 NE/4 (Unit H) of Section 16, 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.

This 40-acre Grayburg unit is currently dedicated to Chevron's Harry Leonard (NCT-E) Well No. 5 (API No. 30-025-06624) located at a standard oil well location 2310 feet from the North line and 330 feet from the East line of Section 16.

It is the Division's understanding that the NE/4 of Section 16 is a single state lease issued by the New Mexico State Land Office (State Lease No. B-01732) 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.

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 producers within Chevron's Harry Leonard (NCT-E) state lease. The proposed infill oil well location will enable Chevron to further develop and deplete the Grayburg reserves within this lease that might not otherwise be recovered.

By the authority granted me under the provisions of Division Rule 104.F (2), the following described well to be drilled at an unorthodox "infill" oil well location within the SE/4 NE/4 (Unit H) of Section 16 is hereby approved:

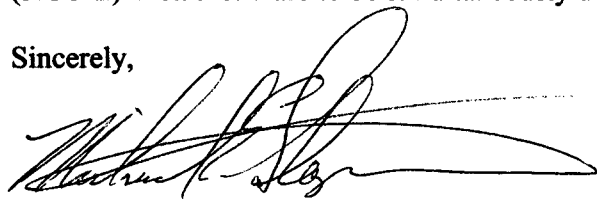
Harry Leonard (NCT-E) Well No. 7
1330' FNL & 1070' FEL.

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Further, both the existing Harry Leonard (NCT-E) Well No. 5 and the proposed Harry Leonard (NCT-E) Well No. 7 are to be simultaneously dedicated to the subject 40-acre unit.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal flourish extending to the right.

Michael E. Stogner
Engineer/Hearing Officer

MS/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe