



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

November 2, 2005

Mark E. Fesmire, P.E.
Director
Oil Conservation Division

Citation Oil & Gas Corp.
c/o **W. Thomas Kellahin**
P. O. Box 2265
Santa Fe, New Mexico 87504

RE: NMOCD Correspondence Reference No. SD-05-04

Dear Mr. Kellahin:

Reference is made to your letter dated September 28, 2005 and submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on behalf of Citation Oil & Gas Corp. of Houston, Texas, concerning past, current, and future development within Eumont (Yates-Seven Rivers-Queen) Gas Pool (76480/22800) underlying the NE/4 of Section 12, Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, which acreage comprises a single state lease issued by the New Mexico State Land Office (*State Lease No. B-01399-0016*), and the following five existing wells:

- (1) State "A" Well No. 1 (API No. 30-025-03455) located 1980 feet from the North line and 660 feet from the East line (Unit H) of Section 12;
- (2) State "A" Well No. 2 (API No. 30-025-08557) located 330 feet from the North and East lines (Unit A) of Section 12;
- (3) State "A" Well No. 2-Y (API No. 30-025-03456) located 990 feet from the North line and 660 feet from the East line (Unit A) of Section 12;
- (4) State "A" Well No. 3 (API No. 30-025-03457) located 2310 feet from the North line and 2515 feet from the East line (Unit G) of Section 12, which well was the subject of Order No. 206 issued in Case No. 16 and adopted on September 14, 1939; and
- (5) State "A" Well No. 4 (API No. 30-025-03458) located 660 feet from the North line and 1980 feet from the East line (Unit B) of Section 12.

For administrative and record keeping purposes this matter was assigned **Division application reference No. pSEM0-527231447**.

Division Order No. R-520, issued in Case No. 673 on August 12, 1954, established the subject 160-acre area as a non-standard gas spacing and proration unit in the Eumont Gas Pool.

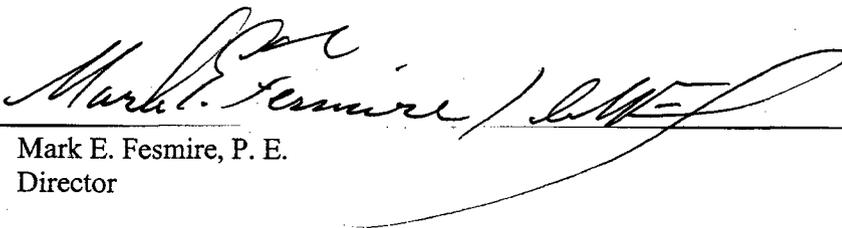
By Order No. R-8170-P, issued in Case No. 12563 on December 14, 2001, the Division caused the prorationing of gas production to cease within the Eumont Gas Pool and promulgated "*Special Pool Rules for the Eumont Gas Pool*," which provide for: (i) oil development on standard 40-acre oil spacing units [Rule 2 (B)] and gas development on standard 640-acre gas spacing units [Rule 2 (A)]; (ii) gas development on a well density based on one well per 160 acres [Rule 3 (C)] and absolutely no more than one well per quarter-quarter section within a gas spacing unit [Rule 3 (D)]; (iii) gas well locations to be no closer than 660 feet to any outer boundary of the assigned gas spacing unit or governmental quarter section line nor closer than 330 feet to any governmental quarter-quarter section line [Rule 3 (A) (2)]; (iv) oil wells to be no closer than 330 feet to any governmental quarter-quarter section line [Rule 3 (A) (1)]; (v) the strict limitation of only one well per 40-acre oil spacing and proration unit [Rule 3 (B)]; (vi) a strict prohibition on the simultaneous dedication of acreage to Eumont gas and oil wells [Rule 2 (C)]; and (iv) administrative exceptions, in some cases, to these rules [Rules 3 (B), 3 (D), and 4]. **FURTHER**, Rule 6 (B) of the special Eumont pool rules states "[A]ll existing exceptions, whether granted administratively or through hearing, in effect on the issuance date of this order shall be "grandfathered" and shall remain in full force and effect until further notice".

From the information provided and from the Division's records, these five wells have extensive production histories in the Eumont Gas Pool prior to the adoption of Division Order No. R-8170-P. The current instances of concurrent production of gas and oil wells and the simultaneous dedication of acreage to gas and oil wells also commenced prior to the adoption of Division Order No. R-8170-P. No additional Eumont wells have been included within the NE/4 of Section 12 since the adoption of Division Order No. R-8170-P.

IT IS THEREFORE ORDERED THAT development of the Eumont Gas Pool within the NE/4 of Section 12 with any of the five above-described wells shall be allowed to continue without interruption. **HOWEVER**, should the operator of this 160 acres within the Eumont Gas Pool add new wells or cause any existing wellbore, other than the five wells described above, to be recompleted within the vertical limits of the Eumont Gas Pool, then Eumont development within the NE/4 of Section 12 shall be subject to reevaluation and exceptions to the applicable rules will be required.

Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,



Mark E. Fesmire, P. E.
Director

MEF/ms

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