



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

July 17, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Kerr-McGee Oil & Gas Onshore, L.L.C.
P. O. Box 809004
Dallas, Texas 75380-9004

Attention: R. Mark Galloway

Administrative Order NSL-4920 (BHL) (SD)

Dear Mr. Galloway:

Reference is made to the following: (i) your application (*administrative application reference No. pKRV0-303528282*) that was submitted to the New Mexico Oil Conservation Division ("Division") on February 3, 2003; and (ii) the Division's records in Santa Fe: all concerning Kerr-McGee Oil & Gas Onshore, L.L.C.'s ("K-M") request for an exception to Rule 2 (b) of the "*Special Rules and Regulations for the Indian Basin-Upper Pennsylvanian Associated Pool*", as promulgated by New Mexico Oil Conservation Division ("Division") Order Nos. R-9922, R-9922-A, R-9922-B, R-9922-C, R-9922-D, and R-9922-E and the "*General Rules and Regulations for the Associated Oil and Gas Pools of Northwest New Mexico and Southeast New Mexico*," as promulgated by Division Order No. R-5353, as amended, for the recently drilled and completed Conoco State Well No. 8 (API No. 30-015-32413) which is located to an unorthodox subsurface location within an existing 336.81-acre stand-up spacing and proration unit comprising Lots 1 and 2, the S/2 NE/4, and the SE/4 (E/2 equivalent) of Section 2, Township 22 South, Range 23 East, NMPM, Indian Basin-Upper Pennsylvanian Associated Pool (33685), Eddy County, New Mexico.

This unit, which is located within that area of the Indian Basin-Upper Pennsylvanian Associated Pool that limits the number of wells per spacing and proration unit to only one well per quarter section [see Ordering Paragraph No. (9) on Page 17 of Division Order No. R-9922-E], is currently dedicated to K-M's Conoco State Well No. 6 (API No. 30-015-30925), located at a standard location 2250 feet from the North line and 1500 feet from the East line (Unit G) of Section 2.

It is our understanding when K-M drilled the Conoco State Well No. 8 at a permitted standard surface location 1710 feet from the South line and 880 feet from the East line (Unit I) of Section 2 in October, 2002 that the wellbore deviated from natural drift to the southwest. It was determined after reaching total depth of 7,794 feet (MD) and after casing was set that the bottomhole location of this well was 1591 feet from the South line and 1049 feet from the East line (Unit I) of Section 2.

This request been duly filed under the provisions of: (i) 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; (ii) Division Rule 111.C (2); (iii) Division Rule 1207.A; and (iv) Rule 2 (c) of the Division's associated pool rules.

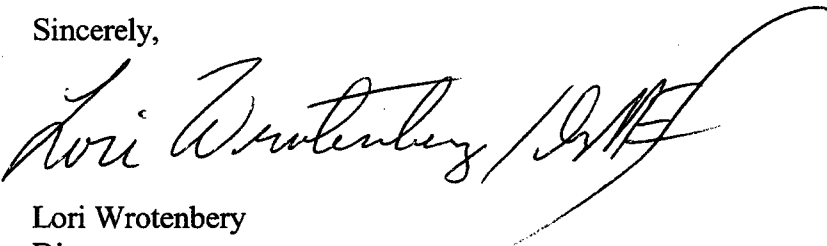
By the authority granted me under the provisions of Division Rule 104.F (2) and the applicable provisions of the special rules governing the Indian Basin-Upper Pennsylvanian Associated Pool, the above-described unorthodox sub-surface location for the Conoco State Well No. 8 within the E/2 equivalent of Section 2 is hereby approved.

Further, both the aforementioned well and spacing and proration unit will be subject to all existing rules, regulations, policies, and procedures applicable to the Indian Basin-Upper Pennsylvanian Associated Pool.

DK-M is further authorized to simultaneously dedicate production attributed to the Indian Basin-Upper Pennsylvanian Associated Pool from the aforementioned Conoco State Wells No. 6 and 8. Furthermore, K-M is permitted to produce the allowable assigned the subject 336.81-acre spacing and proration unit from all three wells in any proportion.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Lori Wrotenberg" followed by a stylized flourish or set of initials.

Lori Wrotenberg
Director

LW/mes

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