



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

April 13, 2006

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-06-05

Dear Mr. Kellahin:

Reference is made to your letter dated March 16, 2006 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 the Eumont (Yates-Seven Rivers-Queen) Gas Pool (76480/22800) underlying Lots 1, 2, 7, 8, 9, 10, 15, and 16 of Irregular Section 1, 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-01398-0031*), and the following eight existing wells:

- (1) State "M" Well No. 1 (*API No. 30-025-03394*) located 1980 feet from the North line and 660 feet from the East line (Lot 8/Unit H) of Irregular Section 1, which well was spud on January 21, 1937;
- (2) State "M" Well No. 2 (*API No. 30-025-08554*) located 3300 feet from the North line and 660 feet from the East line (Lot 9/Unit I) of Irregular Section 1, which well was spud on March 13, 1937;
- (3) State "M" Well No. 3 (*API No. 30-025-08555*) located 660 feet from the North and East lines (Lot 1/Unit A) of Irregular Section 1, which well was spud on March 14, 1937;
- (4) State "M" Well No. 4 (*API No. 30-025-03395*) located 4620 feet from the North line and 660 feet from the East line (Lot 16/Unit P) of Irregular Section 1, which well was spud on June 2, 1937;
- (5) State "M" Well No. 5 (*API No. 30-025-03396*) located 3300 feet from the South line and 1980 feet from the East line (Lot 15/Unit O) of Irregular Section 1, which well was spud on August 23, 1954;
- (6) State "M" Well No. 6 (*API No. 30-025-03369*) located 3224 feet from the North line and 1980 feet from the East line (Lot 10/Unit J) of Irregular Section 1, which well was spud on September 23, 1954;

(7) State "M" Well No. 7 (*API No. 30-025-03370*) located 1980 feet from the North line and 2310 feet from the East line (Lot 7/Unit G) of Irregular Section 1, which well was spud on January 21, 1955; and

(8) State "M" Well No. 8 (*API No. 30-025-03371*) located 914 feet from the North line and 2310 feet from the East line (Lot 2/Unit B) of Irregular Section 1, which well was spud on February 21, 1955.

For administrative and record keeping purposes this matter was assigned **Division application reference No. pTDS0-607630062.**

Division Order No. 615, issued in Case No. 867 on April 20, 1955, initially established the subject 315.34-acre area (Lots 1, 2, 7 through 10, 15, and 16 of Irregular Section 1) as a non-standard gas spacing and proration unit ("GPU") in the Eumont Gas Pool for the aforementioned State "M" Well No. 4 in the center of Lot 16 (Unit P) of Irregular Section 1.

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 eight 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.

IT IS THEREFORE ORDERED THAT development of the Eumont Gas Pool within this 315.34-acre non-standard unit with any of the eight above-described wells shall be allowed to continue without interruption. **HOWEVER**, should the operator of this 315.34 acres within the Eumont Gas Pool add new wells or cause any existing wellbore, other than the eight above-described wells, to be recompleted within the vertical limits of the Eumont Gas Pool, then Eumont development within this 315.34-acre area in Irregular Section 1 shall be subject to reevaluation and exceptions to the applicable rules will be required.

Citation Oil & Gas Corp.

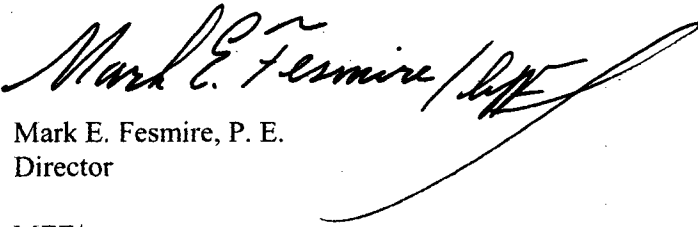
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Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark E. Fesmire" followed by a stylized flourish or initials.

Mark E. Fesmire, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division – Hobbs
New Mexico State Land Office – Santa Fe
File: Case No. 867
