



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

July 20, 2006

Strata Production Company
P. O. Drawer 1030
Roswell, New Mexico 88202-1030

Attention: Kelly M. Britt
kbritt@stratanm.com

Administrative Order NSL-5427
CONFINED PROJECT AREA

Dear Ms. Britt:

Reference is made to the following: (i) your initial application submitted to the New Mexico Oil Conservation Division ("Division") in Santa Fe, New Mexico on May 30, 2006 (*administrative application reference No. pTDS0-615059446*); (ii) the supplemental information filed with the Division on June 2 and 8, 2006 supporting your application; (iii) Mr. Michael E. Stogner's, Staff Engineer with the Division in Santa Fe, telephone conversations with you and with Mr. Bruce A. Stubbs with Pecos Petroleum Engineering, Inc. on Wednesday, July 19, 2006 concerning this application; and (iv) the Division's records in Artesia and Santa Fe: all concerning Strata Production Company's ("Strata") request to horizontally drill its proposed Nash Draw, or Nash Unit, Well No. 48 within the Undesignated Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool (47545) through portions of Sections 11 and 12, Township 23 South, Range 29 East, NMPM, Nash Draw Unit Area (approved by Division Order No. R-4794, issued in Case No. 5231 on May 28, 1974), Eddy County, New Mexico.

The Division Director Finds That:

- (1) Strata seeks an exception to Division Rules 104.B (1), 111.A (13) and 111.C (2) for its proposed Nash Draw/Nash Unit Well No. 48 to be drilled in such a manner as to penetrate and directionally drill a portion of this wellbore within the Undesignated Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool along a path considered to be unorthodox pursuant to Division Rules 104.B (1), 111.A (7), and 111.A (13);
- (2) The subject application has been duly filed under the provisions of Division Rules 104.F, 111.A (13), 111.C (2), and 1210.A (2);
- (3) The horizontal limits for the Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool (47545), as currently designated, comprises the following described lands in Eddy County, New Mexico:

TOWNSHIP 23 SOUTH, RANGE 29 EAST, NMPPM

Section 11:	SE/4
Section 12:	S/2
Section 13:	All
Section 14:	E/2
Section 24:	NE/4

TOWNSHIP 23 SOUTH, RANGE 30 EAST, NMPPM

Section 18:	NW/4
Section 19:	All
Section 20:	NW/4
Section 29:	SW/4
Sections 30 and 31:	All
Section 32:	W/2

TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPPM

Section 36:	NE/4
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TOWNSHIP 24 SOUTH, RANGE 30 EAST, NMPPM

Section 5:	W/2
Section 6:	All
Section 7:	N/2 and SE/4
Section 8:	W/2
Section 17:	W/2
Section 18:	N/2 and SE/4
Section 19:	NE/4 and S/2
Section 30:	E/2
Section 31:	N/2;

- (4) Currently, the Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool and that area within one-mile of the above-described pool boundary (see Division Rule 104.A) is governed under Division Rules 104.B (1), 505, and 506, and the special rules governing this pool as promulgated by Division Order No. R-10096, as amended, which provides for 40-acre oil spacing and proration units, or drilling units, and requires that wells be located no closer than 330 feet to the outer boundary of a single 40-acre oil spacing and proration unit; each standard 40-acre is assigned a top unit depth bracket allowable of 142 barrels of oil per day and a special limiting gas/oil ratio of 8,000 cubic feet of gas per barrel of oil which results in a casinghead gas allowable of 1,136 MCF per day;
- (5) The estimated top of the Delaware formation will be at a depth of 3,110 feet;
- (6) It is the Division's understanding that Strata intends to drill its Nash Draw/Nash Unit Well No. 48:

- (a) from a surface location 2415 feet from the South line and 1646 feet from the West line (Unit K) of Section 12, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, vertically to an approximate measured depth (MD) of 3,000 feet;
 - (b) initially kick-off from the vertical in a northwesterly direction;
 - (c) at a depth of 7,318 feet (MD), or 6,805 feet (TVD), within the Delaware "L" Zone, the wellbore will be horizontal at a subsurface location approximately 1615 feet from the North line and 846 feet from the West line (Unit E) of Section 12;
 - (d) at a measured depth of 9,431 feet from a subsurface location approximately 481 feet from the North line and 855 feet from the East line (Unit A) of Section 11, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, the northwesterly azimuth of the horizontal drainhole will be commence a turn to the west;
 - (e) at a measured depth of 9,827 feet with a subsurface location 500 feet from the North line and 12550 feet from the East line (Unit A) of Section 11 the azimuth of the drainhole will be to the west; and
 - (f) continue to drill horizontally for an approximate distance of 3,030 feet to a targeted bottomhole location, or end-point, within the Delaware "L" Zone at a standard subsurface oil location approximately 500 feet from the North line and 1000 feet from the West line (Unit D) of Section 11 at an approximate measured depth of 12,857 feet, or 6,760 feet TVD;
- (7) Devon's proposed 240-acre "Project Area", pursuant to Division Rules 111.A (9) and C (3), is to comprise the E/2 NW/4 of Section 12 and the N/2 N/2 of Section 11, both in Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, will be created by combining six standard 40-acre oil spacing and proration units;
- (8) It is the Division's understanding that the area comprising the E/2 NW/4 of Section 12 is included within a federal lease issued by the U. S. Bureau of Land Management (*United States Government lease No. NM-32636*) and the offsetting N/2 N/2 of Section 11 is included within a separate federal lease issued by the U. S. Bureau of Land Management (*United States Government lease No. NM-0554221*); both leases are included in the Nash Unit Agreement, Delaware formation participating area operated by Strata;
- (9) Also, the proposed 240-acre Project Area is within the Oil/Potash "R-111-P" area, and is therefore subject to all applicable restrictions and rules therein;
- (10) It is Strata's intent to complete (perforations/open-hole) only the horizontal portion of this wellbore;

- (11) Since it is Strata's intent to complete this well in the manner described above, but to confine the completions (perforations/open-hole) within that portion of the wellbore that meet the orthodox setback requirements for oil wells under statewide rules (40 acres and 330 foot setbacks), an exception to Division Rules 111.A (13) and 111.C (2) is necessary in this instance;
- (12) Any point within the resulting path of the Nash Draw/Nash Unit Well No. 48 within the Undesignated Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool that is closer than 330 feet to the subject 240-acre Project Area is unorthodox and cannot be perforated or capable of contributing oil production without first obtaining proper authorization from the Division; and
- (13) The provisions contained within this order and all other applicable provisions of Division Rules 111, 505, and 506 and the special pool rules governing the Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool, should apply to the subject 240-acre High Angle/Horizontal Well Project Area.

It Is Therefore Ordered That:

(1) The application of Strata Production Company ("Strata") for exception to Division Rules 111.A (13) and 111.C (2) to directionally drill its proposed Nash Draw, or Nash Unit, Well No. 48 as a horizontal/lateral well within Undesignated Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool (47545) from a surface location 2415 feet from the South line and 1646 feet from the West line (Unit K) of Section 12, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, in the manner described above in Finding Paragraph No. (6), is hereby approved.

(2) The 240-acre "Project Area", pursuant to Division Rules 111.A (9) and C (3), is to comprise the E/2 NW/4 of Section 12 and the N/2 N/2 of Section 11, both in Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, being six standard 40-acre Delaware oil spacing and proration units, shall be dedicated to this well.

(3) The applicable drilling window or producing area that meet the orthodox 330 feet setback requirements for Delaware oil production shall apply only to the perforated or open-hole interval within the Undesignated Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool of Strata's proposed Nash Draw/Nash Unit Well No. 48.

It Is Further Ordered That:

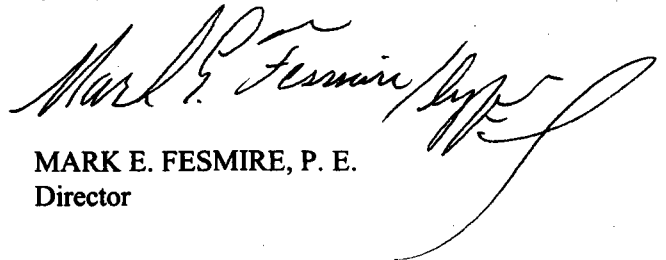
(4) Any point along the path of this wellbore that is within the Undesignated Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool and is closer than 330 feet to the above-described 240-acre Project Area is unorthodox and can not be perforated or capable of contributing production without first obtaining proper authorization from the Division.

(5) The operator shall comply with all applicable requirements and conditions set forth in Division Rules 111, 505, and 506 and the special pool rules governing the Nash Draw-Delaware/Bone Spring (Avalon Sand) Pool.

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

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



MARK E. FESMIRE, P. E.
Director

MEF/ms

cc: New Mexico Oil Conservation Division - Artesia
U. S. Bureau of Land Management - Carlsbad
U. S. Bureau of Land Management - Roswell
Mr. Bruce A. Stubbs, Pecos Petroleum Engineering, Inc. - Roswell