



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

April 21, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Pecos Production Company

400 West Illinois – Suite 1070

Midland, Texas 79701

Attention: William R. Huck

billh@pecosproduction.com

Administrative Order NSL-4861

Dear Mr. Huck:

Reference is made to the following: (i) your initial application that was submitted to the New Mexico Oil Conservation Division ("Division") on April 4, 2003 (**administrative application reference No. pKRV0-309734445**); (ii) the Division's response by letter dated April 9, 2003 from Mr. Michael E. Stogner, Engineer/Chief Hearing Officer in Santa Fe, New Mexico **denying** this application; (iii) your re-submittal of this application with amendments to the Division on April 15, 2003; (iv) your telephone conversations with Mr. Stogner on April 14, 16, and 17, 2003; and (v) the Division's records in Santa Fe: all concerning Pecos Production Company's ("Pecos") request for an unorthodox oil well location in both the Undesignated Southeast Dean-Wolfcamp Pool (**97005**) and Undesignated Northeast Lovington-Upper Pennsylvanian Pool (**40760**) for its proposed Overland Well No. 1 to be drilled 1276 feet from the South line and 1724 feet from the West line (Unit V) of Irregular Section 2, Township 16 South, Range 37 East, NMPM, Lea County, New Mexico.

The Northeast Lovington-Upper Pennsylvanian Pool is governed by the "*Special Rules and Regulations for the Northeast Lovington-(Upper) Pennsylvanian Pool*", as promulgated by Division Order No. R-3816, as amended, which provides for 80-acre spacing and proration units consisting of the N/2, S/2, E/2, or W/2 of a governmental quarter section, being a legal subdivision of the United States Public Land Surveys (see Rule 2) and for wells to be located within 150 feet of the center of a governmental quarter-quarter section or lot (see Rule 4).

The spacing and well location requirements for the Southeast Dean-Wolfcamp Pool is governed under the provisions of Division Rule 104.B (1), revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999, which provides for 40-acre oil spacing and proration units and requires wells to be located no closer than 330 feet to the outer boundary of such 40-acre unit.

In accordance with the two aforementioned spacing rules: (i) the E/2 SW/4 of Irregular Section 2, being a standard 80-acre stand-up oil spacing and proration unit for the Undesignated

Northeast Lovington-(Upper) Pennsylvanian Pool; and (ii) the SE/4 SW/4 of Irregular Section 2, being a standard 40-acre oil spacing and proration unit for the Undesignated Dean-Wolfcamp Pool: are to be dedicated, respectively, to the subject Overland Well No. 1.

The subject application has been duly filed under the provisions of Division Rule 104.F, as revised, and the applicable provisions of the rules governing the Northeast Lovington-(Upper) Pennsylvanian Pools.

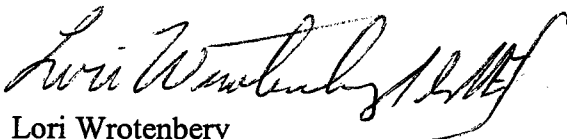
It is our understanding that Pecos is seeking this location exception based on a 3-D seismic survey of a defined Wolfcamp pinnacle reef, whereby it contends that the staked location is at the optimal location to test this limited structure. Further, topographic conditions further restrict placement of a drilling pad in the SE/4 SW/4 of Section 2.

It is further understood that the S/2 of Irregular Section 2 is a single fee lease in which Pecos is the leasehold operator.

By the authority granted me under the provisions of: (i) Rule 5 of the special pool rules for the Northeast Lovington-(Upper) Pennsylvanian Pool; and (ii) Division Rule 104.F (2), as revised, the unorthodox Wolfcamp/Upper Pennsylvanian oil well location of Pecos's proposed Overland Well No. 1 to be drilled 1276 feet from the South line and 1724 feet from the West line (Unit V) of Irregular Section 2 is hereby approved.

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

Sincerely,



Lori Wrotenbery
Director

LW/MES/kv

cc: New Mexico Oil Conservation Division - Hobbs