



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop

Cabinet Secretary

January 3, 2005

Mark E. Fesmire, P.E.

Director

Oil Conservation Division

Primero Operating, Inc.
P. O. Box 1433
Roswell, New Mexico 88202

Telefax No. (505) 625-0227

Attention: Phelps White
President

Case 13411

RE: *Administrative application of Primero Operating, Inc. ("Primero") for an exception to Division Rule 104.D (3) initially filed with the New Mexico Oil Conservation Division ("Division") on November 19, 2004 (administrative application reference No. pMES0-433154728) for the existing C. L. O'Brien Well No. 2 (API No. 30-005-20897), located at a standard gas well location 1980 feet from the North and East lines (Unit H) of Section 7, Township 8 South, Range 30 East, NMPM, Chaves County, New Mexico, and C. L. O'Brien Well No. 1 (API No. 30-005-00475), also located at a standard gas well location 660 feet from the North and East lines (Unit A) of Section 7 to be simultaneously dedicated to a standard 160-acre shallow gas spacing unit within the West Cato-San Andres Gas Pool (74445) comprising the NE/4 of Section 7.*

Dear Mr. White:

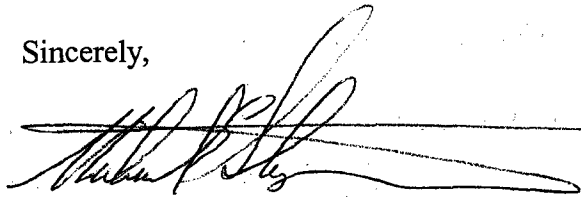
The West Cato-San Andres Gas Pool is an unprorated gas pool that is subject to Division Rule 104.D (3), which states, "[E]xceptions to the provisions of statewide rules or special pool orders (meaning "special pool rules") concerning the number of wells allowed per spacing unit may be permitted by the Director only after notice and opportunity for hearing." This rule was further defined by a memorandum issued by the Director on October 25, 1999 (see copy attached), which states, "[U]nless otherwise provided by special pool rules or amended Rule 104 (e.g., the infill provision for deep gas pools in Southeast New Mexico), only one well per spacing unit is permitted in non-prorated pools."

This application unfortunately cannot be processed administratively; therefore, this matter will be set for hearing before a Division Hearing Examiner on the next available docket scheduled for February 3, 2005. I have prepared the following advertisement in this matter:

Application of Primero Operating, Inc. for an exception to Division Rule 104.D (3), Chaves County, New Mexico. Applicant seeks an exception to Division Rule 104.D (3) in order to simultaneously dedicate production attributed to the West Cato-San Andres Gas Pool (74445) within an existing 160-acre standard shallow gas spacing unit comprising the NE/4 of Section 7, Township 8 South, Range 30 East, from the following two wells: (i) C. L. O'Brien Well No. 19 (API No. 30-005-00475), located at a standard gas well location 660 feet from the North and East lines (Unit A) of Section 7; and (ii) C. L. O'Brien Well No. 2 (API No. 30-005-20897), also located at a standard gas well location 1980 feet from the North and East lines (Unit H) of Section 7. This unit is located approximately nine (9) miles east-southeast of Elkins, New Mexico.

Should you have any questions, please contact your legal counsel, either: (i) Mr. W. Thomas Kellahin in Santa Fe at (505) 982-4285; or (ii) Mr. James Bruce in Santa Fe at (505) 982-2043. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael E. Stogner", with a long horizontal line extending to the right.

Michael E. Stogner
Chief Hearing Officer/Engineer

MES/kv

cc: New Mexico Oil Conservation Division – Hobbs
James Bruce, Legal Counsel for Primero Operating, Inc. in Case No. 12618 - Santa Fe
W. Thomas Kellahin, Legal Counsel for Primero Operating, Inc. in Cases No. 10938, 11046,
11174, and 12766 - Santa Fe



NEW MEXICO ENERGY, MINERALS
& NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION
2040 South Pacheco Street
Santa Fe, New Mexico 87505
(505) 827-7131

NOTICE

TO: All Oil and Gas Operators, Mineral Interest Owners,
and Interested Parties

FROM: Lori Wrotenbery, Director *LW*

SUBJECT: Implementation of Amended Division Rule 104

DATE: October 25, 1999

Amendments to Division Rule 104 "Well Spacing and Location," adopted by the New Mexico Oil Conservation Commission in Order R-11231 (Case 12119) on August 12, 1999, became effective August 31, 1999. Attached to this notice are copies of Order No. R-11232, with the amended Rule 104 attached, and the recently amended Rule 1207 concerning notice requirements.

Summary of Changes

The amendments made five main changes in Rule 104:

- (1) the rule has been shortened and reorganized;
- (2) well location setbacks for all gas development on 160-acre spacing throughout the State are now standardized at 660 feet from the outer boundary of the quarter section line;
- (3) well location setbacks for deep gas development on 320-acre spacing in Southeast New Mexico have been relaxed from 1650 feet from an end boundary to 660 feet;
- (4) one optional infill well is now allowed within 320-acre deep gas units in Southeast New Mexico; and
- (5) interior 330-foot setbacks from quarter-quarter section lines for both 160-acre and 320-acre gas units governed by Rule 104 have been reduced to 10 feet.

Effect of Changes

Since the primary objectives of the rule changes were to grant operators increased flexibility in locating wells and decrease the number of applications for unorthodox locations, all future location

October 25, 1999

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exceptions will require substantial justification, *i.e.*, unusual circumstances. Please also note the recent changes made to the notice requirements for unorthodox locations found in Division Rule 1207.A(2).

Furthermore, the well location requirement for oil wells on 40-acre spacing has not changed and remains 330 feet from the quarter-quarter section. Operators need to be wary if a well's main objective is a deeper gas-producing interval but there is the possibility of oil production and the location is closer to an interior quarter-quarter section line than 330 feet. In order to complete the well in a shallower oil-producing horizon, the operator will be required to obtain an exception for the unorthodox oil well location. Location exceptions in this situation will not be granted unless unusual circumstances justify the location, and the closer a well is to a neighboring property, the harder it will be to obtain an exception. For example, if the well is only 10 feet off a neighboring property, it is highly unlikely an exception will be granted.

Regarding the new provision authorizing one infill well in a 320-acre deep gas unit in Southeast New Mexico, application can be made to adopt or amend special pool rules to limit the number of wells per spacing unit in any pool where infill wells are not justified. The notice requirements for special pool rules were also recently amended to accommodate this type of action. See Division Rule 1207.A(4).

Unless otherwise provided by special pool rules or amended Rule 104 (*e.g.*, the infill provision for deep gas pools in Southeast New Mexico), only one well per spacing unit is permitted in non-prorated pools. The Division Director, however, may grant administrative exceptions in appropriate circumstances.

Effect on Existing Orders

Any existing special pool rule or other order specific to well locations (*e.g.*, a production penalty on an unorthodox well location now standard under amended Rule 104) shall remain in full force and effect until the order is amended. Operators should review these orders to determine whether to file applications to conform the orders to amended Rule 104.

In the near future, a hearing will be held before a Division Hearing Examiner addressing the few deep gas pools in Southeast New Mexico still spaced on 160 acres. At the hearing, the Division will consider whether to issue an order listing these pools and setting forth setback requirements mirroring, if applicable, the setbacks for shallow gas wells in Southeast New Mexico.

Division Memoranda dated July 27, 1988 and August 3, 1990 concerning the interpretation of old Rule 104 are hereby withdrawn.

Attachments