



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON

Governor

Joanna Prukop
Cabinet Secretary

August 6, 2003

Lori Wrotenbery

Director

Oil Conservation Division

Nadel and Gussman Permian, L.L.C.

c/o **James Bruce**

P. O. Box 1056

Santa Fe, New Mexico 87504

Re: Case No. 13115: Application of Nadel and Gussman Permian, L.L.C. for a Non-standard Gas Spacing and Proration Unit and an Unorthodox Gas Well Location, or for Alternative Relief, Eddy County, New Mexico. Applicant seeks an order approving a non-standard gas spacing and proration unit in the Delaware formation comprised of the W/2 SE/4 of Section 28, Township 21 South, Range 27 East, Eddy County, New Mexico. The unit will be dedicated to applicant's existing Tucker Fee Well No. 1Y (API No. 30-015-32615), located at an unorthodox gas well location 1600 feet from the South line and 2300 feet from the East line of Section 28. In the alternative, applicant requests that the Division declare (i) the well is an oil well because it is within the boundaries of the North Esperanza-Delaware (Oil) Pool, (ii) the NW/4 SE/4 of Section 28 is properly dedicated to the well, and (iii) the well's location is orthodox. The unit is located approximately 3 miles northeast of Carlsbad, New Mexico.

Dear Mr. Bruce:

This matter just came to my attention. I am not the hearing examiner for tomorrow's docket in which this matter is scheduled, I have however reviewed this file and the record in Division Administrative Order NSL-4925, dated July 22, 2003, and hope this letter may resolve the issue all together or at least address some of the operator's concerns.

The vertical limits of the North Esperanza-Delaware Pool (97030) underlying the N/2 and SE/4 of Section 28 include the entire Delaware formation (see copy of Division Order No. R-11444, issued in Case No. 12480 on August 31, 2003 and a page from the Division's nomenclature book attached for reference). This pool is an oil pool and is subject to Division Rule 104.B (1), which requires 40-acre oil spacing and proration units and for wells to be located no closer than 330 feet to any boundary of such unit. As the applicant knows (see Division Administrative Order NSL-4925, dated July 22, 2003) the location of this well is "unorthodox" for this 40-acre oil spacing and proration unit comprising the NW/4 SW/4 (Unit J) of Section 28.

Furthermore, Division Rules 506.A and 506.B (2) apply in this instance (see attached). The gas production from this well and your existing 40-acre oil spacing and proration unit is subject to this pool's casinghead gas allowable, which is 160 MCFPD (80 BOPD times 2000 to 1 GOR limit equals 160,000 CFPD). It appears this adequately addresses the second part of your application and that this matter can be dismissed.

Should you have any questions concerning this matter, please contact me in Santa Fe at (505) 476-3465.

Sincerely,

Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Artesia

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 12480
Order No. R-11444

APPLICATION OF THE OIL CONSERVATION
DIVISION FOR AN ORDER CREATING AND
EXTENDING CERTAIN POOLS IN EDDY
COUNTY, NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on August 24, 2000, at Santa Fe, New Mexico before Examiner Michael E. Stogner.

NOW, on this 31st day of August, 2000, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

- (1) Due public notice has been given and the Division has jurisdiction of this case and its subject matter.
- (2) There is need for the creation of a new pool in Eddy County, New Mexico for the production of oil from the Wolfcamp formation, to be designated the North Cass Draw-Wolfcamp Pool. The North Cass Draw-Wolfcamp Pool was discovered by the Santa Fe Snyder Corporation Weems Well No. 1 located in Unit C of Section 27, Township 22 South, Range 27 East, NMPM, which was completed in the Wolfcamp formation on February 26, 2000. The top of the perforations is at 9,062 feet.
- (3) There is need for the creation of a new pool in Eddy County, New Mexico for the production of gas from the Morrow formation, to be designated the Southeast Cemetery-Morrow Gas Pool. The Southeast Cemetery-Morrow Gas Pool was discovered by the Marbob Energy Corporation Zarafa "FF" Federal Well No. 1 located in Unit I of Section 12, Township 21 South, Range 24 East, NMPM, which was completed in the Morrow formation on June 23, 2000. The top of the perforations is at 10,044 feet.
- (4) There is need for the creation of a new pool in Eddy County, New Mexico for the production of oil from the Delaware formation, to be designated the North Esperanza-Delaware Pool. The North Esperanza-Delaware Pool was discovered by the Snow Oil and Gas Inc. Elizondo "A" Federal Well No. 1 located in Unit C of Section 28,

Township 21 South, Range 27 East, NMPM, which was completed in the Delaware formation on May 25, 2000. The top of the perforations is at 3,458 feet.

(5) There is need for certain extensions to the North Antelope Sink-Morrow Gas Pool, the Artesia-Glorieta-Yeso Pool, the Brushy Draw-Delaware Pool, the West Burton Flat-Strawn Gas Pool, the Empire-Pennsylvanian Gas Pool, the Empire-Yeso Pool, the Frontier Hills-Strawn Gas Pool, the Logan Draw-Morrow Gas Pool, the Owen Mesa-Atoka Gas Pool, the Southwest Palmillo-Bone Spring Pool, the Red Lake-Glorieta-Yeso Pool, the West Sand Dunes-Delaware Pool, the North Shugart-Morrow Gas Pool, and the North Turkey Track-Morrow Gas Pool, all in Eddy County, New Mexico.

IT IS THEREFORE ORDERED THAT:

(a) A new pool in Eddy County, New Mexico classified as an oil pool for Wolfcamp production is hereby created and designated as the North Cass Draw-Wolfcamp Pool, consisting of the following described area:

TOWNSHIP 22 SOUTH, RANGE 27 EAST, NMPM
Section 27: NW/4

(b) A new pool in Eddy County, New Mexico classified as a gas pool for Morrow production is hereby created and designated as the Southeast Cemetery-Morrow Gas Pool, consisting of the following described area:

TOWNSHIP 21 SOUTH, RANGE 24 EAST, NMPM
Section 12: E/2

(c) A new pool in Eddy County, New Mexico classified as an oil pool for Delaware production is hereby created and designated as the North Esperanza-Delaware Pool, consisting of the following described area:

TOWNSHIP 21 SOUTH, RANGE 27 EAST, NMPM
Section 28: NW/4

(d) The North Antelope Sink-Morrow Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 18 SOUTH, RANGE 24 EAST, NMPM
Section 21: NE/4
Section 22: N/2

(e) The Artesia-Glorieta-Yeso Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM

Section 26: S/2
Section 27: S/2
Section 28: SE/4
Section 33: NE/4
Section 34: NW/4
Section 35: W/2

(f) The Brushy Draw-Delaware Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 26 SOUTH, RANGE 29 EAST, NMPM

Section 14: SW/4 and W/2 SE/4

(g) The West Burton Flat-Strawn Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 20 SOUTH, RANGE 27 EAST, NMPM

Section 36: NW/4

(h) The Empire-Pennsylvanian Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 17 SOUTH, RANGE 28 EAST, NMPM

Section 15: W/2

(i) The Empire-Yeso Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 17 SOUTH, RANGE 29 EAST, NMPM

Section 30: SE/4

(j) The Frontier Hills-Strawn Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 23 SOUTH, RANGE 26 EAST, NMPM

Section 9: S/2

(k) The Logan Draw-Morrow Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 17 SOUTH, RANGE 27 EAST, NMPM

Section 30: N/2

(l) The Owen Mesa-Atoka Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 24 SOUTH, RANGE 29 EAST, NMPM

Section 35: NW/4

(m) The Southwest Palmillo-Bone Spring Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 19 SOUTH, RANGE 28 EAST, NMPM

Section 2: SW/4

Section 11: NW/4

(n) The Red Lake-Glorieta-Yeso Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 18 SOUTH, RANGE 27 EAST, NMPM

Section 9: W/2

Section 16: N/2

(o) The West Sand Dunes-Delaware Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 23 SOUTH, RANGE 31 EAST, NMPM

Section 33: SE/4

(p) The North Shugart-Morrow Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 5: W/2

(q) The North Turkey Track-Morrow Gas Pool in Eddy County, New Mexico is hereby extended to include:

TOWNSHIP 18 SOUTH, RANGE 29 EAST, NMPM

Section 25: W/2

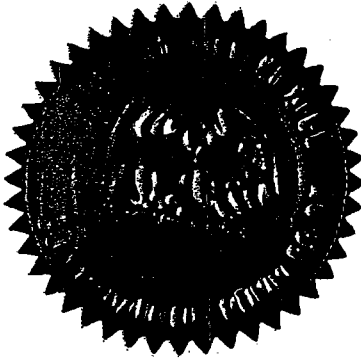
IT IS FURTHER ORDERED THAT:

(1) Pursuant to NMSA 1978, Section 70-2-18, an operator of any well that, by virtue of any of the above pool extensions, is subject to pool rules providing for spacing or proration units larger than the one presently dedicated thereto, shall have 60 days from the effective date of this order to file Form C-102 dedicating a standard unit for the pool to that well or to obtain a non-standard unit approval from the Division. Pending such compliance, the well shall receive a maximum allowable in the same proportion to a standard allowable for the pool that the acreage dedicated to the well bears to a standard unit for the pool. Failure to file Form C-102 dedicating a standard unit to the well or to obtain a non-standard unit approved by the Division within that 60-day period shall subject the well to cancellation of allowable.

(2) The effective date of this order and all creations and extensions included herein shall be September 1, 2000.

Case No. 12480
Order No. R-11444
-5-

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



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director

COUNTY *Eddy*

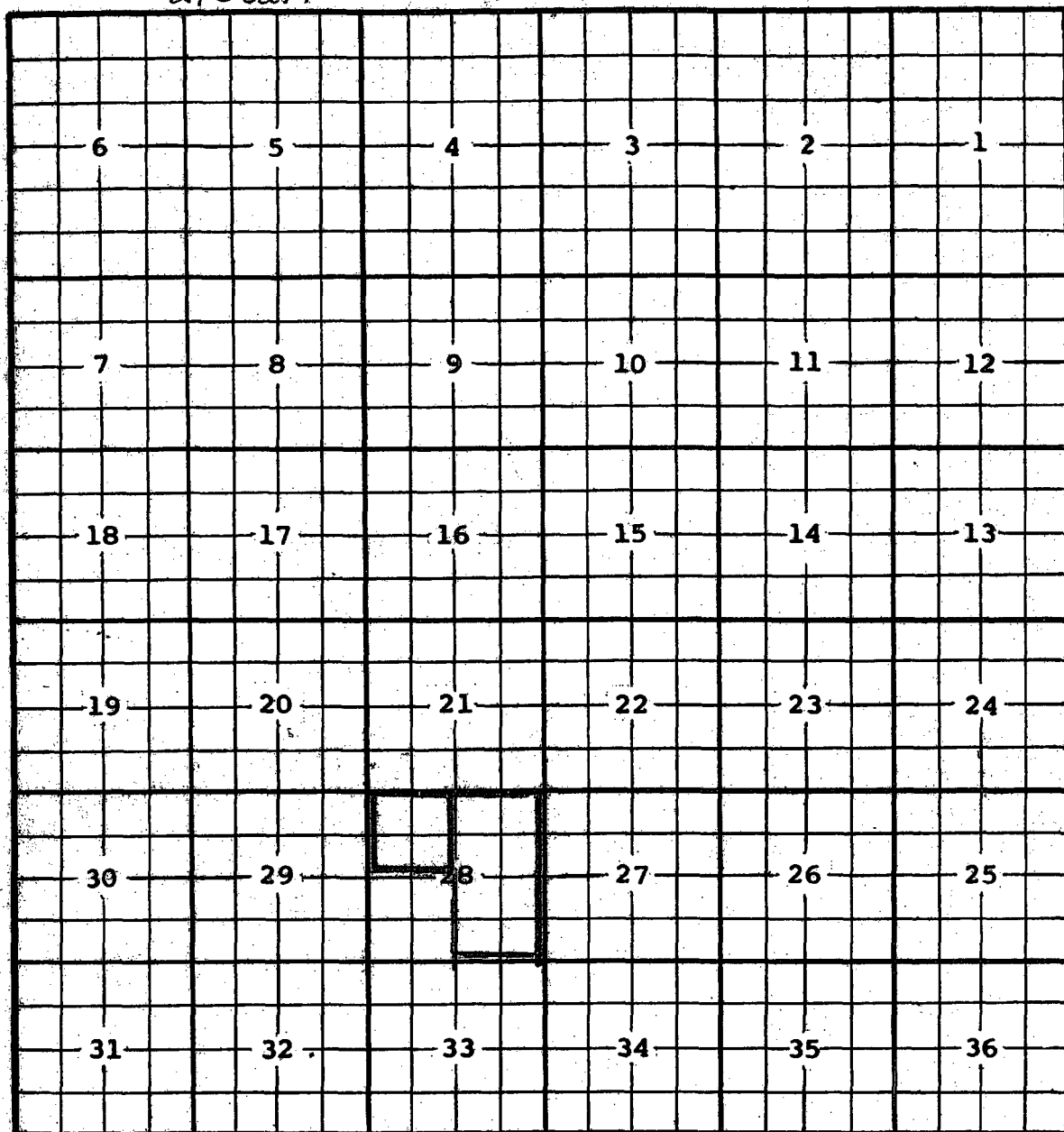
POOL *North Esperanza-Delaware*

TOWNSHIP *21 South*

RANGE

27 East

NMPM



Description: *NW/4 Sec. 28 (R-11444, 3-31-00) Ext: E/2 Sec. 28 (R-11583, 5-2-01)*

POOL DEPTH RANGE	DEPTH BRACKET ALLOWABLE		
	40 Acres	80 Acres	160 Acres
0 to 4,999 feet	80 bbls.	160 bbls.	
5,000 to 5,999 "	107 "	187 "	347 bbls.
6,000 to 6,999 "	142 "	222 "	382 "
7,000 to 7,999 "	187 "	267 "	427 "
8,000 to 8,999 "	230 "	310 "	470 "
9,000 to 9,999 "	275 "	355 "	515 "
10,000 to 10,999 "	320 "	400 "	560 "
11,000 to 11,999 "	365 "	445 "	605 "
12,000 to 12,999 "	410 "	490 "	650 "
13,000 to 13,999 "	455 "	535 "	695 "
14,000 to 14,999 "	500 "	580 "	740 "
15,000 to 15,999 "	545 "	625 "	785 "
16,000 to 16,999 "	590 "	670 "	830 "
17,000 to 17,999 "	635 "	715 "	875 "

[9-1-72...2-1-96]

- 505.B. The 40-acre depth bracket allowables shall apply to all undesignated wells not governed by special pool rules and to all pools developed on the normal 40-acre statewide spacing unit. [9-1-72...2-1-96]
- 505.C. The 80-acre and 160-acre depth bracket allowables shall apply to wells governed by applicable special pool rules promulgated by the Division as an exception to the normal 40-acre statewide spacing unit. [9-1-72...2-1-96]
- 505.D. The Division may, where the same is deemed appropriate, assign to a given pool a special depth bracket allowable at variance to the depth bracket allowable normally assigned to a pool of similar depth and spacing. Such special allowable may be more or less than the regular depth bracket allowable and shall be assigned only after notice and hearing. [9-1-72...2-1-96]
- 505.E. In assigning a lesser than regular depth bracket allowable, the Division may consider, among other pertinent factors, reservoir damage, casinghead gas production and disposition, water production and disposition, transportation facilities, the prevention of surface or underground waste, and the protection of correlative rights. [9-1-72...2-1-96]
- 505.F. Assignment of a greater than regular depth bracket allowable shall be made only after sufficient reservoir information is available to ensure that said allowable can be produced without damage to the reservoir and without causing surface or underground waste. The Division shall also consider the availability of crude oil transportation and marketing facilities, casinghead gas transportation, processing, and marketing facilities, water disposal facilities, the protection of correlative rights, and other pertinent factors. [9-1-72...2-1-96]

506 GAS-OIL RATIO LIMITATION

506. A. In allocated pools containing a well or wells producing from a reservoir which contains both oil and gas, each proration unit shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit oil allowable for the pool. In the event the Division has not set a gas-oil ratio limit for a particular oil pool, the limiting gas-oil ratio shall be 2,000 cubic feet of gas for each barrel of oil produced. In allocated oil pools all producing wells, whether oil or casinghead gas, shall be placed on the oil proration schedule. [1-1-50...2-1-96]
- 506.B. Unless heretofore or hereafter specifically exempted by order of the Division issued after hearing, a gas-oil

ratio limitation shall be placed on all allocated oil pools, and all proration units having a gas-oil ratio exceeding the limit for the pool shall be penalized in accordance with the following procedure:

- (1) Any proration unit which, on the basis of the latest official gas-oil ratio test, has a gas-oil ratio in excess of the limiting gas-oil ratio and has the capacity to produce above the top casinghead gas volume calculated by Rule 506 A. for the pool in which it is located shall be permitted to produce daily that number of barrels of oil which shall be determined by multiplying the current top unit allowable by a fraction, the numerator of which shall be the limiting gas-oil ratio for the pool and the denominator of which shall be the official test gas-oil ratio of the well, and the proration unit will be designated non-marginal. [1-1-50...2-1-96]
- (2) Any unit containing a well or wells producing from a reservoir which contains both oil and gas shall be permitted to produce only that volume of gas equivalent to the applicable limiting gas-oil ratio multiplied by the top unit allowable currently assigned to the pool. [1-1-50...2-1-96]
- (3) A marginal unit shall be permitted to produce the same volume of gas which it would be permitted to produce if it were a non-marginal unit. [1-1-50...2-1-96]

506.C. All non-marginal proration units to which gas-oil ratio adjustments are applied shall be so indicated in the proration schedule with adjusted allowables stated. [1-1-50...2-1-96]

506.D. In cases of new pools, the limit shall be 2,000 cubic feet per barrel until such time as changed by order of the Division issued after a hearing. Upon petition and after notice and hearing according to law, the Division will determine or redetermine the specific gas-oil ratio limit which is applicable to a particular allocated oil pool. [1-1-50...2-1-96]

507 UNITIZED AREAS

After petition and notice and hearing, the Division may grant approval for the combining of contiguous developed proration units into a unitized area. [1-1-50...2-1-96]

508 RECOVERED LOAD OIL

508.A. Recovered load oil may be run from the lease on which it is recovered, provided Division approval is obtained by means of Form C-126. Form C-126 must be filed in QUADRUPLICATE with the appropriate district office of the Division. Upon approval, one copy will be returned to the operator and one copy will be sent to the designated transporter as authority to transport the oil. [4-15-54...2-1-96]

508.B. This rule applies only to oil which has been obtained from a source other than the lease on which it is used. [4-15-54...2-1-96]

508.C. Recovered load oil as used herein is any oil or liquid hydrocarbon which has been used in any operation in an oil or gas well, and which has been recovered as a merchantable product. [4-15-54...2-1-96]

509 OIL DISCOVERY ALLOWABLE

509.A. In addition to the normally assigned allowable, an oil discovery allowable may be assigned to a well completed as a bona fide discovery well in a new common source of supply. Said oil discovery allowable shall be in the amount of 5 barrels for each foot of depth of said well from the surface of the ground to the top of the perforations in the new pool or the depth of the casing shoe, whichever is higher. In counties where there is no other current oil production, and in any county when the discovery is the deepest oil production in the county,



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

BILL RICHARDSON
Governor
Joanna Prukop
Cabinet Secretary

July 22, 2003

Lori Wrotenbery
Director
Oil Conservation Division

Nadel and Gussman Permian, L.L.C.
c/o James Bruce
P. O. Box 1056
Santa Fe, New Mexico 87504

Administrative Order NSL-4925

Dear Mr. Bruce:

Reference is made to the following: (i) your application (*administrative application reference No. pMES0-319743586*) submitted to the New Mexico Oil Conservation Division ("Division") on July 11, 2003 on behalf of the operator Nadel and Gussman Permian, L.L.C. ("Nadel & Gussman"); (ii) the Division's initial response by e-mail from Mr. Michael E. Stogner, Engineer/Chief Hearing Officer in Santa Fe on July 16, 2003 requesting verification on a certain aspect of this filing not covered; (iii) your response by telefax on July 21, 2003 with sufficient information to complete your application; and (iv) the Division's records in Santa Fe: all concerning Nadel & Gussman's request for an exception to 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, for its existing Tucker Fee Well No. 1-Y (API No. 30-015-32615), recently completed in the Delaware formation at an unorthodox oil well location 1600 feet from the South line and 2300 feet from the East line (Unit J) of Section 28, Township 21 South, Range 27 East, NMPM, Eddy County, New Mexico.

The NW/4 SW/4 (Unit J) of Section 28 is to be dedicated to this well in order to form a standard 40-acre oil spacing and proration unit for the North Esperanza-Delaware Pool (97030).

This application has been duly filed under the provisions of Division Rule 104.F, as revised.

It is the Division's understanding that while drilling its Tucker Fee Well No. 1 (API No. 30-025-32579) at a standard oil well location within the above-described 40-acre unit 1650 feet from the South line and 2300 feet from the East line of Section 28, Nadel & Gussman experienced problems downhole at a depth of 505 feet that caused this well to be abandoned. On February 6, 2003 the rig on site was skidded 50 feet to the south and the replacement well, Nadel & Gussman's above-described Tucker Fee Well No. 1-Y was spudded. This well was subsequently completed within the North Esperanza-Delaware Pool on April 18, 2003.

It is further understood that the W/2 SE/4 of Section 28 is within a single fee lease with common mineral interest in which Arch is the leasehold operator; therefore, there are no adversely effected offsets to the subject 40-acre tract within the Delaware interval.

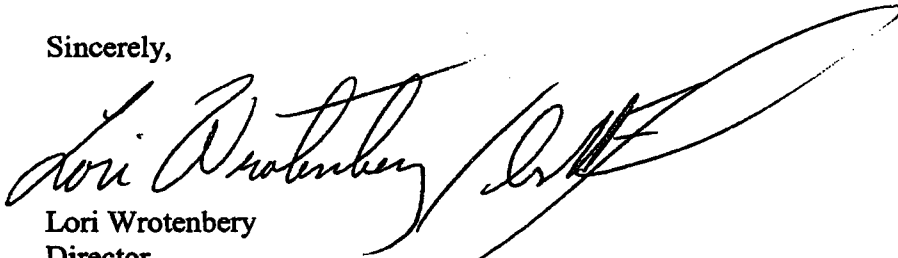
Nadel and Gussman Permian, L.L.C.
July 22, 2003
Page 2

Division Administrative Order NSL-4925

By the authority granted me under the provision of Division Rule 104.F (2), as revised, the above-described unorthodox oil well location within the North Esperanza-Delaware Pool for Nadel & Gussman's above-described Tucker Fee Well No. 1-Y is hereby approved.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Lori Wrotenbery", followed by a large, sweeping flourish that extends across the page.

Lori Wrotenbery
Director

LW/mes

cc: New Mexico Oil Conservation Division - Artesia