

**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. 13085
ORDER NO. R-12106**

**APPLICATION OF EGL RESOURCES, INC. AND ROBERT LANDRETH FOR
POOL EXTENSION, OR ALTERNATIVELY POOL CREATION, AND
EXPANSION OF GAS SPACING AND PRORATION UNIT, LEA COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 2, 2003, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 20th day of February, 2004, 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) The applicants, EGL Resources, Inc. and Robert Landreth, collectively ("EGL-Landreth") seek an order extending the pool boundaries of the North Bell Lake-Devonian Gas Pool to include Sections 4 and 5, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) **Alternatively**, EGL-Landreth seeks the creation of a new pool for the production of gas from the Devonian formation comprising Section 4, Township 23 South, Range 34 East, NMPM. EGL-Landreth also seeks the establishment of special pool rules, including provisions for 640-acre gas spacing and proration units and designated well location requirements such that wells shall be located no closer than 1650 feet to the outer boundary of the proration unit nor closer than 330 feet to any governmental quarter-quarter section line or subdivision inner boundary.

(4) EGL-Landreth further seeks to expand an existing 320-acre gas spacing and proration unit created by Division Order No. R-11962 dated May 13, 2003, which presently consists of the N/2 of Section 4, and which is currently dedicated to the EGL-Landreth Rio Blanco "4" Federal Well No. 1 (API No. 30-025-34515) located at a standard gas well location 1980 feet from the North and West lines (Unit F) of Section 4, to include all of Section 4, thereby forming a 640-acre gas spacing and proration unit from the base of the Morrow formation to the base of the Devonian formation. EGL-Landreth further seek authority to dedicate the aforesaid Rio Blanco "4" Federal Well No. 1 to the proposed 640-acre unit.

(5) Devon Energy Production Company ("Devon") and Southwestern Energy Production Company ("Southwestern"), both interest owners in Section 4, appeared at the hearing in opposition to the application.

(6) The dispute between EGL-Landreth and Devon with regards to the development of Section 4 originated on or about April 10, 2003, at which time Cases No. 13048 and 13049 were heard by the Division. In Case No. 13048, Devon sought an order pooling the interests of EGL-Landreth from the base of the Morrow formation to the base of the Devonian formation underlying the N/2 of Section 4 forming a 320-acre spacing and proration unit. This unit was to be dedicated to the existing Rio Blanco "4" Federal Well No. 1, which was to be re-entered and deepened to the Devonian formation. In Case No. 13049, EGL Resources, Inc. ("EGL") sought an order pooling the interest of Devon and Southwestern from the base of the Morrow formation to the base of the Devonian formation underlying all of Section 4 forming a 640-acre spacing and proration unit. This unit was also proposed to be dedicated to the Rio Blanco "4" Federal Well No. 1, which was to be re-entered by EGL and deepened to the Devonian formation.

(7) Both of the proposed spacing units in Cases No. 13048 and 13049 are located exactly one mile from the outer boundary of the North Bell Lake-Devonian Gas Pool, which currently comprises all of Sections 6, 7 and 18, Township 23 South, Range 34 East, NMPM, and which is currently governed by special pool rules as established by Division Order No. R-6424 dated August 4, 1980, which require standard 640-acre gas spacing and proration units with wells to be located no closer than 1650 feet to the outer boundary of the section and no closer than 330 feet to any governmental quarter-quarter section line.

(8) The parameters that determine whether a well is classified as a wildcat well or a development well in New Mexico are summarized in Division Rule No. 104.A(1)(b), as follows:

"In all counties except San Juan, Rio Arriba, Sandoval and McKinley, a wildcat well is any well to be drilled the spacing unit of which is a distance of one mile or more from:

- (i) the outer boundary of any defined pool that has produced oil or gas from the formation to which the well is projected to be drilled; and*
- (ii) any well that has produced oil or gas from the formation to which the proposed well is projected."*

(9) In Case No. 13048, Devon sought an order pooling a 320-acre unit based upon its belief that the Rio Blanco "4" Federal Well No. 1 should be classified as a wildcat well and therefore be subject to the statewide spacing and location requirements set forth by Division Rule No. 104.C.(2). In Case No. 13049, EGL sought an order pooling a 640-acre unit based upon its belief that the Rio Blanco "4" Federal Well No. 1 should be classified as a development well and therefore be subject to the special pool rules for the North Bell Lake-Devonian Gas Pool.

(10) Based upon the evidence presented in Cases No. 13048 and 13049, and based upon its own interpretation of Rule No. 104.A(1)(b), the Division approved the pooling of a 320-acre spacing and proration unit comprising the N/2 of Section 4. However, the Division awarded operatorship of the Rio Blanco "4" Federal Well No. 1 to EGL.

(11) The evidence presented demonstrates that the formation of a 640-acre unit comprising all of Section 4 will significantly increase EGL-Landreth's interest ownership in the Rio Blanco "4" Federal Well No. 1, and will consequently decrease the interest ownership of Devon and Southwestern, all shown as follows:

<u>Company</u>	<u>Interest Ownership</u> <u>640-Acre Unit</u>	<u>Interest Ownership</u> <u>320-Acre N/2 Unit</u>
Robert E. Landreth	62.5%	50%
EGL Resources, Inc.	25%	25%
Devon Energy Production Co.	6.25%	12.5%
Southwestern Energy Prod. Co.	6.25%	12.5%

(12) In compliance with the provisions of Division Order No. R-11962, EGL-Landreth commenced re-entry operations on the Rio Blanco "4" Federal Well No. 1 on July 9, 2003 and completed the well on September 19, 2003. The well was drilled to a total depth of 14,597 feet and was completed in the Devonian open-hole interval from 14,497 feet to 14,597 feet. The well tested at an initial rate of 1.87 MMCF of gas, 3.7 barrels of oil, and 2 barrels of water per day.

(13) The evidence presented demonstrates that the development of the North Bell Lake-Devonian Gas Pool has occurred as follows:

- (a) the discovery well for this Devonian reservoir was the Continental Oil Company ("Conoco") Bell Lake Unit Well No. 6 (API No. 30-025-08483) located in Unit O of Section 6. This well was drilled in 1960 and cumulatively produced approximately 31 BCF of gas from the Devonian formation. This well has not produced from the Devonian formation since the mid 1990's and is currently shut-in;
- (b) the North Bell Lake Devonian Gas Pool was created by Division Order No. R-2187 dated February 21, 1962, and originally comprised the SE/4 of Section 6. The pool was initially spaced on 160 acres and remained that way until 1980;
- (c) in 1980 BTA Oil Producers ("BTA") drilled and completed in the Devonian formation its 7909 JV-P Well No. 1 (API No. 30-025-26508) located in Unit F of Section 18, Township 23 South, Range 34 East, NMPM. BTA subsequently applied to the Division to expand the North Bell Lake-Devonian Gas Pool to include the N/2 and SW/4 of Section 6 and all of Sections 7 and 18, and further requested the establishment of special pool rules, including 640-acre spacing. By Order No. R-6424 dated August 4, 1980, the Division granted BTA's application; and

- (d) in 1995-96, Amerada Hess Corporation ("Amerada") drilled two wells; the first well, the Amerada Bell Lake Federal Well No. 3 (API No. 30-025-33077), is located in Unit H of Section 6. This well tested 4.5 MMCF of gas per day and 1300 barrels of water per day on a drill stem test ("DST") in the Devonian formation. The second well, the Amerada Bell Lake Federal Well No. 2 (API No. 30-025-32672), is located in Unit N of Section 5. This well tested all water and no gas from the Devonian formation. Neither of these wells was completed in the Devonian formation.

(14) EGL-Landreth presented the following-described geologic and geophysical evidence to support its position that the Conoco Bell Lake Unit Well No. 6 and the Rio Blanco "4" Well No. 1 have penetrated a single common source of supply in the Devonian formation:

- (a) based upon well control and 3-D seismic data, the extent of this Devonian structure has been determined to encompass all or parts of Sections 3 through 10 and 15 through 20, Township 23 South, Range 34 East, and all or parts of Sections 31 through 34, Township 22 South, Range 34 East, NMPM;
- (b) the two Amerada wells in Sections 5 and 6 encountered the Devonian formation at the same structural position as the Conoco Bell Lake Unit Well No. 6. By the time the Amerada wells were drilled however, the Devonian reservoir at those locations had already been depleted by the Conoco Bell Lake Unit Well No. 6;
- (c) the original gas-water contact in this Devonian reservoir occurred at a sub-sea depth of 11,340 feet. This gas-water contact, and a fault traversing in a north-south direction in Sections 6 and 7, define the original productive limits of this reservoir;

- (d) within this Devonian structure, there is a northwest-southeast trending fault located in the W/2 of Section 5, and two additional minor faults located in Sections 4 and 33. The fault in Section 5 extends only slightly into the S/2 of Section 5 and does not extend into Section 8. This fault therefore does not provide reservoir separation between the Conoco Bell Lake Unit Well No. 6 and the Rio Blanco "4" Federal Well No. 1. Additionally, there are no other faults present in this Devonian structure that would isolate or divide the reservoir in Sections 4, 5 and 6;
- (e) there is a structural low located in Sections 5 and 8 that separates this common reservoir into western and eastern portions. This structural low, located at a sub-sea depth of 11,260 feet, is higher than the original gas-water contact in the reservoir. Therefore, this structural low did not originally provide separation of the eastern and western portions of this reservoir;
- (f) due to gas depletion by the Conoco Bell Lake Unit Well No. 6, the gas-water contact is now essentially located at the top of the Devonian structure within the western portion of this reservoir (sub-sea depth of 11,075 feet). Due to the presence of the structural low in Sections 5 and 8, the gas-water contact within the eastern portion of this reservoir has risen only to a sub-sea depth of approximately 11,250 feet;
- (g) within the eastern portion of this Devonian reservoir, there are approximately 1,230 acres of productive reservoir above the current gas-water contact; and

- (h) the Rio Blanco "4" Federal Well No. 1 penetrated only the top 92 feet of the Devonian structure and was not drilled deep enough to penetrate the gas-water contact. Based upon certain measured reservoir parameters and certain porosity and net pay assumptions, the permeability in this well has been calculated to be approximately 17.6 millidarcies (md).

(15) To further support its application, EGL-Landreth presented the following evidence:

- (a) there are two other Devonian gas pools in this area that are currently subject to special pool rules that provide for 640-acre spacing. The Antelope Ridge-Devonian and the Red Hills-Devonian Gas Pools are located approximately two miles southeast and 13 miles southwest, respectively, of the North Bell Lake-Devonian Gas Pool;
- (b) the Antelope Ridge-Devonian Pool, which was developed about the same time as the North Bell Lake-Devonian Gas Pool, was produced by a total of four wells that cumulatively produced approximately 39 BCF of gas;
- (c) the reservoir characteristics of the Antelope Ridge-Devonian Pool are quite similar to those of the North Bell Lake-Devonian Pool; however, the permeability of the Rio Blanco "4" Federal Well No. 1, calculated to be 17.6 md, is approximately four times higher than the average permeability of the first two wells drilled in the Antelope Ridge-Devonian Pool;

- (d) Amerada Hess Corporation, the current operator of the Bell Lake Unit Well No. 6 and the Bell Lake Federal Wells No. 2 and 3 in Sections 5 and 6, support the application of EGL-Landreth in this case;
- (e) the bottomhole pressure within the Rio Blanco "4" Federal Well No. 1, measured in September, 2003, is approximately 6,137 psi. The virgin bottomhole pressure within the Conoco Bell Lake Unit Well No. 6, measured in 1960, was approximately 6,400 psi. The decrease in reservoir pressure in the Rio Blanco "4" Federal Well No. 1 can be attributed to a drainage effect by the Conoco Bell Lake Unit Well No. 6, which is located approximately 2 miles away;
- (f) the preliminary geologic data available for the Rio Blanco "4" Federal Well No. 1 indicates that this well will likely be capable of draining an area of at least 640 acres; and
- (g) approval of a well density greater than one well per section will only serve to accelerate the recovery of gas reserves from the reservoir, may be detrimental to the reservoir by causing excessive water coning through high gas withdrawal rates, and will cause the drilling of unnecessary wells.

(16) EGL-Landreth further testified that Devon is currently drilling its Rio Blanco "33" Federal Well No. 1 (API No. 30-025-36359) at a location 1000 feet from the South line and 1620 feet from the West line (Unit N) of Section 33, Township 22 South, Range 34 East, NMPM, to test the Devonian formation, and has additional plans to drill the Rio Blanco "33" Federal Well No. 2 (API No. 30-025-36360) at a location 1980 feet from the North and West lines (Unit F) of Section 33, and the Rio Blanco "9" State Well No. 1 (API No. 30-025-36302) at a location 660 feet from the North line and 1575 feet from the East line (Unit B) of Section 9, Township 23 South, Range 34 East, NMPM, to test the Devonian formation.

(17) EGL-Landreth requested at the hearing that the well location for the Devon Rio Blanco "33" Federal Well No. 1, which would be unorthodox pursuant to its request for 640-acre spacing, not be approved or "grandfathered" by the order resulting from this case in the event its application is approved. Rather, EGL-Landreth requests that the unorthodox location for this well be considered on a subsequent Division case called to ascertain whether a production penalty is appropriate in order to protect correlative rights.

(18) With regards to EGL-Landreth's request, legal counsel for Southwestern stated that:

- (a) since the existing special pool rules for the North Bell Lake-Devonian Gas Pool contain a "grandfather" clause, EGL-Landreth's application to expand the boundaries of the North Bell Lake-Devonian Gas Pool is not sufficiently advertised and noticed to request the relief sought. In order to grant EGL-Landreth's specific request, this case would require re-advertisement and re-notification; and
- (b) conversely, EGL-Landreth's alternate application to create a new pool for Devonian gas production and to establish special pool rules is sufficiently flexible to provide the relief sought.

(19) In view of the procedural matters examined, EGL-Landreth requested at the hearing that the portion of its application seeking to expand the boundaries of the North Bell Lake-Devonian Gas Pool to include Sections 4 and 5, Township 23 South, Range 34 East, NMPM, be dismissed.

(20) Devon presented the following-described geologic and geophysical evidence to support its position that the Conoco Bell Lake Unit Well No. 6 and the Rio Blanco "4" Federal Well No. 1 have penetrated separate and distinct Devonian reservoirs:

- (a) utilizing well control and 3-D seismic data, it has constructed a geologic depiction of the Devonian structures in this area;

- (b) the Devonian structure that was produced by the Conoco Bell Lake Unit Well No. 6 (the "North Bell Lake Structure") encompasses all or parts of the E/2 of Section 6, W/2 of Section 5, NE/4 of Section 7 and NW/4 of Section 8. This Devonian structure is bounded on the west by a north-south trending fault that extends from Section 31 south through Section 6 and into Section 7. This Devonian structure is bounded on the east by a northwest-southeast trending fault that extends from Section 31 southeast through Section 5 and into Section 8. These two faults provide structural closure on the east and west sides, and structural closure on the north and south is obtained by dip. The gas-water contact within this structure is estimated to occur at a sub-sea depth of 11,362 feet;
- (c) the Devonian structure recently penetrated by the Rio Blanco "4" Federal Well No. 1 ("Rio Blanco Structure") encompasses all or parts of Sections 33, 4, and the NE/4 of Section 9. This Devonian structure is bounded on the west by a north-south trending fault that extends from Section 33 south through Sections 4 and 9. Structural closure is provided on the north, east and southeast by dip. The gas-water contact in this structure is estimated to be at a sub-sea depth of 11,250 feet;
- (d) the northwest-southeast trending fault on the east side of the North Bell Lake Structure provides the mechanism that separates and isolates the North Bell Lake Structure from the Rio Blanco Structure;
- (e) by virtue of a structural low in Section 7, the North Bell Lake Structure is also separate and distinct from the Devonian structure that was produced by the BTA 7909 JV-P Well No. 1; and

- (f) inconsistent porosity development between wells located in the North Bell Lake Structure suggests that these Devonian structures are not homogeneous reservoirs.

(21) Devon also testified that while both EGL-Landreth and Devon utilized 3-D seismic data to help construct their respective geologic interpretations, Devon's 3-D coverage area was considerably larger than EGL-Landreth's.

(22) Devon conducted a reservoir engineering comparison between the North Bell Lake-Devonian Gas Pool and the Antelope Ridge-Devonian Pool. The results of this comparison demonstrate that:

- (a) the original gas-in-place (OGIP) for the North Bell Lake-Devonian Gas Pool is approximately 81 BCF, while the OGIP for the Antelope Ridge-Devonian Pool is approximately 58 BCF;
- (b) the Conoco Bell Lake Unit Well No. 6, being the only well that produced from the North Bell Lake-Devonian Gas Pool, recovered 31 BCF of gas, or 38% of the OGIP. The four wells that produced from the Antelope Ridge-Devonian Pool cumulatively recovered 39 BCF of gas, or 67% of the OGIP;
- (c) three of the four wells that produced from the Antelope Ridge-Devonian Pool were drilled in close proximity to one another, effectively on 160-acre spacing. Production data does not demonstrate interference between these wells; and
- (d) all four wells drilled in the Antelope Ridge-Devonian Pool, even though they were drilled at different times during a 26-year span, encountered a bottomhole pressure that was at or near virgin reservoir pressure.

(23) Devon also presented engineering evidence that demonstrates that the Conoco Bell Lake Unit Well No. 6 ultimately drained an area of approximately 330 acres within the North Bell Lake-Devonian Gas Pool.

(24) At the request of Devon, the Division has taken administrative notice of the record in Case No. 6962, which was heard by the Division on July 9, 1980. Case No. 6962 was the application of BTA Oil Producers to expand the North Bell Lake-Devonian Gas Pool, and to establish special pool rules. The hearing in this case resulted in the issuance of Division Order No. R-6424.

(25) The Division has also taken administrative notice of the record in Case No. 2945, which was heard by the Division on December 4, 1963. Case No. 2945 was the application of Shell Oil Company ("Shell") for pool creation (Antelope Ridge-Devonian Pool) and to establish special pool rules that provide for 640-acre spacing. The hearing in Case No. 2945 resulted in the issuance of Division Order No. R-2623 dated December 19, 1963, which granted Shell's application.

(26) After a review of the geologic and geophysical evidence presented by both EGL-Landreth and Devon, the Division finds that:

- (a) Devon's 3-D seismic coverage area is extensively larger than that of EGL-Landreth. As a result, Devon is better able to define the extent of the Devonian structure in Section 4, and is better able to obtain a regional description of the various Devonian structures in this area;
- (b) Devon's study of this area has found that the Devonian structures, in general, are relatively small, compact, and fault bounded. Devon's geologic interpretation that shows separate Devonian structures in Sections 4 and 6 is consistent with this regional interpretation;
- (c) the geologic evidence presented by Devon, which shows fault separation between the Conoco Bell Lake Unit Well No. 6 and the Rio Blanco "4" Federal Well No. 1, appears to better honor the geophysical data utilized by both parties; and

- (d) the northwest-southeast trending fault that extends from Section 31 southeast through Section 5 and into Section 8 extends a sufficient distance and provides sufficient throw to effectively isolate the Devonian structure in Sections 5, 6, 7 and 8 from the Devonian structure in Sections 4, 9 and 33.

(27) An examination of the geologic evidence presented in Case No. 6962 shows that BTA, based upon existing well control at the time and 2-D seismic data, mapped a north-south traversing fault extending from 31 south through Sections 5 and 8. The fault mapped by BTA is in a similar location to the fault mapped by Devon.

(28) Inasmuch as EGL-Landreth has requested dismissal of that portion of its application seeking to expand the boundaries of the North Bell Lake-Devonian Gas Pool to include Sections 4 and 5, there is not a conflict between the parties with regards to the creation of a new Devonian pool in Section 4.

(29) The evidence presented demonstrates that the Rio Blanco "4" Federal Well No. 1 has discovered a new gas pool within the Devonian formation. Consequently, a new pool for the production of gas from the Devonian formation should be created and designated the Northeast Bell Lake-Devonian Gas Pool.

(30) With regards to the evidence presented by both parties comparing the reservoir in Section 4 to other 640-acre spaced Devonian pools in this area, the Division finds that:

- (a) of the twenty-one existing Devonian gas pools located in southeast New Mexico, seven are spaced on 160 acres, eleven are spaced on 320 acres, and three are spaced on 640 acres;
- (b) a review of the record in Case No. 6962 shows that although BTA testified that the Conoco Bell Lake Unit Well No. 6 would drain an area in excess of 640 acres, it did not provide specific engineering data to confirm this position. In addition, BTA estimated, through its engineering evidence, that the Conoco Bell Lake Unit Well No. 6 would

ultimately recover 52 BCF of gas. Data presented in this case shows that the Conoco Bell Lake Unit Well No. 6 ultimately recovered only 31 BCF of gas;

- (c) the Amerada Bell Lake Federal Well No. 3 is a 160-acre offset to the Conoco Bell Lake Unit Well No. 6. At the time it was drilled in 1995, it tested on DST at a rate of approximately 4.6 MMCF of gas per day. In 1995, the Conoco Bell Lake Unit Well No. 6 had already cumulatively produced some 31 BCF of gas from this structure;
- (d) a review of the record in Case No. 2945 shows that Shell based its belief that 640-acre spacing was appropriate for the Antelope Ridge-Devonian Pool largely on permeability data alone. In addition, Shell also based its request for 640-acre spacing on drilling economic data which showed, at that time, that drilling Devonian wells on 160 or 320-acre spacing units was uneconomic;
- (e) no production interference was apparent in the wells that produced from the Antelope Ridge-Devonian Pool, even though these wells were effectively spaced 160 acres apart;
- (f) very little pressure depletion was observed in the wells drilled in the Antelope-Ridge-Devonian Pool, even though the last well was drilled some twenty-four years later than the first well; and
- (g) the increased recovery factor within the Antelope Ridge-Devonian Pool, as compared to the recovery factor within the North Bell Lake-Devonian Pool, appears to be a result of denser drilling.

(31) With regards to the geologic evidence presented by both parties, the Division finds that:

- (a) the Rio Blanco "4" Federal Well No. 1 did not penetrate the entire Devonian pay interval. In addition, porosity and net pay values for the Rio Blanco "4" Federal Well No. 1 could not be obtained due to poor log quality;
- (b) both EGL-Landreth and Devon, utilizing estimated values for porosity and net pay and actual DST results, calculated permeabilities for the Rio Blanco "4" Federal Well No. 1. EGL-Landreth estimated the permeability in the well to be approximately 17.6 md, while Devon estimated the permeability in the well to be in the range of 2.5 md to 27.8 md;
- (c) in the absence of additional geologic and/or engineering data, an accurate permeability value for the Rio Blanco "4" Federal Well No. 1 cannot be determined at this time; and
- (d) Devon adequately demonstrated that the Devonian interval, at least within the North Bell Lake-Devonian Gas Pool, can be characterized as a non-homogeneous reservoir.

(32) There is not sufficient evidence in this case to demonstrate that the Rio Blanco "4" Federal Well No. 1 will drain an area of 640 acres within the Northeast Bell Lake-Devonian Pool.

(33) The geologic and engineering data currently available demonstrate that one well per 320 acres within the Northeast Bell Lake-Devonian Gas Pool is appropriate, will not cause reservoir waste, and will enable the operators in the pool to develop this reservoir in a more efficient manner.

(34) The application of EGL-Landreth to establish special pool rules providing for 640-acre spacing within the newly created Northeast Bell Lake-Devonian Gas Pool, and to expand the 320-acre proration unit authorized by Division Order No. R-11962 dated May 13, 2003, should be denied.

IT IS THEREFORE ORDERED THAT:

(1) The application of EGL Resources, Inc. and Robert Landreth for an order extending the pool boundaries of the North Bell Lake-Devonian Gas Pool to include Sections 4 and 5, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico, is hereby dismissed.

(2) A new pool for the production of gas from the Devonian formation is hereby created and designated the Northeast Bell Lake-Devonian Gas Pool. The pool shall initially comprise the N/2 of Section 4, Township 23 South, Range 34 East, NMPM, Lea County, New Mexico.

(3) The application of EGL Resources, Inc. and Robert Landreth to establish special pool rules for the Northeast Bell Lake-Devonian Gas Pool that provide for 640-acre spacing and proration units and corresponding well location requirements is hereby denied.

(4) The application of EGL Resources, Inc. and Robert Landreth to expand a 320-acre spacing and proration unit comprising the N/2 of Section 4, Township 23 South, Range 34 East, NMPM, established by Division Order No. R-11962 dated May 13, 2003, to include all of Section 4, and to dedicate to this 640-acre unit the Rio Blanco "4" Federal Well No. 1 (API No. 30-025-34515) located at a standard gas well location 1980 feet from the North and West lines (Unit F) of Section 4, is hereby denied.

(5) Special pool rules for the Northeast Bell Lake-Devonian Gas Pool are hereby established as follows:

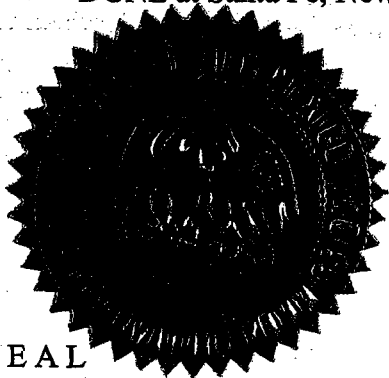
**SPECIAL POOL RULES FOR THE
NORTHEAST BELL LAKE-DEVONIAN GAS POOL**

RULE NO. 1: Each well completed or re-completed within the designated boundary of the Northeast Bell Lake-Devonian Gas Pool or in the Devonian within one mile thereof, and not nearer to or within the limits of another Devonian pool, shall be spaced in accordance with the special rules herein set forth.

- RULE NO. 2:** Each well shall be located on a spacing unit consisting of 320 surface contiguous acres, more or less, comprising any two contiguous quarter sections of a single section that is a legal subdivision of the U.S. Public Lands Survey.
- RULE NO. 3:** Each well shall be located no closer than 660 feet to the outer boundary of the quarter section on which the well is located and no closer than 10 feet to any quarter-quarter section line or subdivision inner boundary.
- RULE NO. 4:** No more than one (1) well shall be drilled on a standard unit containing 320 acres.
- RULE NO. 5:** Unorthodox well locations and/or non-standard spacing units within the Northeast Bell Lake-Devonian Gas Pool may be obtained pursuant to the procedures set forth in Division Rule No. 104.

(6) Jurisdiction is hereby 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

Lori Wrotenbery
LORI WROTENBERY
Director