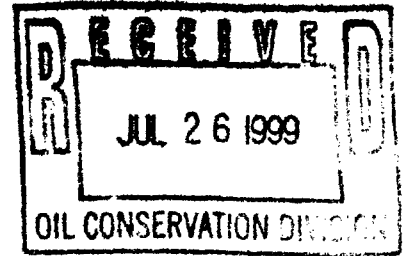


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July 26, 1999

Hand Delivered


Michael E. Stogner
Oil Conservation Division
2040 South Pacheco Street
Santa Fe, New Mexico 87505

Re: Case 12171 (West Lovington Strawn Unit expansion)

Dear Mr. Stogner:

Enclosed are the provisions which Charles B. Gillespie, Jr.
requests be incorporated in the order on the above matter.

Very truly yours,


James Bruce

cc: Counsel of record (w/encl.)

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. 12171
Order No. R-_____

APPLICATION OF GILLESPIE OIL, INC. FOR
UNIT EXPANSION, STATUTORY UNITIZATION,
AND QUALIFICATION OF THE EXPANDED UNIT
AREA FOR THE RECOVERED OIL TAX RATE AND
CERTIFICATION OF A POSITIVE PRODUCTION
RESPONSE PURSUANT TO THE "NEW MEXICO
ENHANCED OIL RECOVERY ACT," LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

(Provisions proposed by Charles B. Gillespie, Jr.)

(1) Charles B. Gillespie, Jr. ("Gillespie"), a working interest owner in the West Lovington Strawn Unit ("WLSU"), entered an appearance in the case. Gillespie agreed at hearing that Section 13 and Section 16 of the Unit Agreement be revised according to the technical committee proposal. Gillespie further agreed that Tract 15 be brought into the WLSU effective November 1, 1997. Finally, Gillespie agreed that the wells described below be brought into the WLSU, the expanded unit area be qualified for the recovered oil tax rate, and that the two wells be certified as having a positive production response:

- (a) Snyder "EC" Com. Well No. 1, located in Lot 2 of Section 6, Township 16 South, Range 36 East, NMPM; and
- (b) Snyder "C" Well No. 4, located in Lot 1 of Section 6, Township 16 South, Range 36 East, NMPM.

(2) Gillespie presented geological evidence at hearing which shows that:

- (a) The West Lovington-Strawn Pool is a mature pool which has produced approximately 3.9 MBO from the Strawn formation bioherm facies. Detailed structural and isopach mapping of the porous bioherm facies has revealed the areal limits of this pool. The information was integrated with known

oil/water contacts, bottom hole pressure data, and material balance calculations based on accepted engineering principles for the unit. All well control, both inside the unit and within two miles of the unit, were taken into consideration. Based on this work, Gillespie has proposed an HPV map which brings all relevant acreage into the unit.

(b) The E $\frac{1}{2}$ N $\frac{1}{4}$ Section 28, NE $\frac{1}{4}$ Section 34, and E $\frac{1}{2}$ SW $\frac{1}{4}$ Section 35, in Township 15 South, Range 35 East, NMPM, are below the oil-water contact, and thus should not be included in the unit.

(c) The NE $\frac{1}{4}$ of Section 34 has a Strawn dry hole located on it, again indicating this acreage should not be included in the unit.

(d) The State "D" Well No. 8, located in the SW $\frac{1}{4}$ of Lot 12 of Section 1, Township 16 South, Range 35 East, NMPM, is completed in and is producing from the South Big Dog-Strawn Pool, and thus cannot be included in the unit.

(3) As a result of the foregoing evidence, Gillespie seeks to expand the horizontal boundaries of the WLSU by statutorily unitizing, pursuant to the Statutory Unitization Act, an additional 673.47 acres, more or less, of State and Fee lands, described as follows:

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 28:	S $\frac{1}{2}$ SW $\frac{1}{4}$
Section 34:	SE $\frac{1}{4}$
Section 35:	W $\frac{1}{2}$ SW $\frac{1}{4}$

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: 9, 10, 11, and N $\frac{1}{2}$ and SE $\frac{1}{4}$ of Lot 12

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 5:	Lots 3 and 4
Section 6:	1, 2, 7, and 8

(4) Under Gillespie's proposal, the tract participations for the expanded unit area are described in Exhibit 1 attached hereto.

(5) Gillespie also seeks an amendment to Article 10.4 of the Unit Operating Agreement (attached hereto as Exhibit 2) to require that wells drilled outside the unit and later brought into the unit, be allowed to recover 250% of payout. This is based on the payout multiples achieved by the following wells before they were brought into the unit effective November 1, 1997:

(a) Chandler Well No. 1, located in the SW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 28, Township 15 South, Range 35 East, NMPM (WLSU Tract 14), which achieved a payout of 250%; and

(b) State "S" Well No. 1, located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$ of Section 34, Township 15 South, Range 35 East, NMPM (WLSU Tract 12), which achieved a payout of 550%.

(6) The expansion boundaries proposed by Gillespie better conform to the geological data, and should be approved.

(7) The amendment to Article 10.4 of the Unit Operating Agreement should be approved in the interests of fairness and equal treatment.

IT IS THEREFORE ORDERED THAT:

(1) The expanded West Lovington Strawn Unit Area, comprising 2292.42 acres, more or less, of State, Federal, and Fee lands in the West Lovington-Strawn Pool, Lea County, New Mexico, is hereby approved for statutory unitization pursuant to the Statutory Unitization Act, NMSA 1978 §§70-7-1 through 70-7-21.

(2) The lands included within the expanded West Lovington Strawn Unit Area shall comprise:

EXPANDED WEST LOVINGTON STRAWN UNIT AREA

TOWNSHIP 15 SOUTH, RANGE 35 EAST, NMPM

Section 28: S $\frac{1}{2}$ S $\frac{1}{2}$
Section 33: All
Section 34: W $\frac{1}{2}$ and SE $\frac{1}{4}$
Section 35: W $\frac{1}{2}$ SW $\frac{1}{4}$

TOWNSHIP 16 SOUTH, RANGE 35 EAST, NMPM

Section 1: Lots 1-11, and N $\frac{1}{2}$ and SE $\frac{1}{4}$ of Lot 12

TOWNSHIP 16 SOUTH, RANGE 36 EAST, NMPM

Section 5: Lots 3 and 4
Section 6: Lots 1-4, 5, 7, and 8

(3) The West Lovington Strawn Unit Agreement, approved by Division Order No. R-10449, as modified by the new Section 13, Section 16, and Exhibits "A", "B", and "C" thereto, is incorporated by reference into this order. The West Lovington Strawn Unit Operating Agreement, approved by Division Order No. R-10449, as modified by the amendment to Article 10.4 (attached hereto as Exhibit 2), is incorporated by reference into this order.

(4) The tract participations for the expanded West Lovington Strawn Unit Area are hereby established as provided in Exhibit 1 attached hereto.

EXHIBIT 1

Case No. 12171
Order No. R-_____

<u>TRACT NUMBER</u>	<u>PARTICIPATION</u>
Tracts 1-11:	79.78651696%
Tract 12:	1.31737888%
Tract 13:	2.92161816%
Tract 14:	1.41595113%
Tract 15:	0.35287077%
Tract 16A:	1.77738166%
Tract 16B:	0.15231534%
Tract 17:	2.95726603%
Tract 18:	3.03295439%
Tract 19:	1.03012084%
Tract 20:	1.16117964%
Tract 21A:	0.10765114%
Tract 21B:	0.30879675%
Tract 21C:	0.94963387%
Tract 22:	<u>2.72836445%</u>
	100.00000000%

EXHIBIT 2

Case No. 12171
Order No. R-_____

Article 10.4. Investment Adjustments.

Paragraph 2 (revised): All wells completed in the Strawn formation within the Unit Area, as expanded, shall be Unit wells. If a Unit well which is assigned a Wellbore Factor of 1 under Section 13 of the Unit Agreement, as amended, has not reached a status of 250% payout of reasonable well costs as of the effective date of unit expansion, the Working Interest Owners in the Unit, in proportion to their working interest in the Unit, shall pay to all interest owners of each such well the amount necessary to reach 250% payout. Any such well which has a Wellbore Factor of less than 1 shall receive 100% of payout plus an amount equal to (Well Factor x 150%).