



NEW MEXICO ENERGY, MINERALS and NATURAL RESOURCES DEPARTMENT

GARY E. JOHNSON
Governor
Jennifer A. Salisbury
Cabinet Secretary

November 2, 2001

Lori Wrotenbery
Director
Oil Conservation Division

KUKUI Operating Company
c/o Holland & Hart LLP and Campbell & Carr
P. O. Box 2208
Santa Fe, New Mexico 87504-2208
Attention: William F. Carr

Telefax No. (505) 983-6043

Administrative Order NSL-4658

Dear Mr. Carr:

Reference is made to the following: (i) KUKUI Operating Company's ("KUKUI") initial application that was submitted to the New Mexico Oil Conservation Division ("Division") on August 27, 2001 (*application reference No. pKRV0-124040408*) for administrative review; (ii) letters of objection filed by Devon SFS Operating ("Devon") on September 14, 2001 and Kaiser-Francis Oil Company ("Kaiser-Francis") on September 13 and 17, 2001; (iii) the Division's records in Santa Fe including the file in Division Case No. 12736; and (iv) the letter of agreement dated October 17, 2001 between KUKUI, Devon, and Kaiser-Francis: all concerning KUKUI's request for a non-standard gas well location within the S/2 of Section 35, Township 23 South, Range 29 East, NMPM, Eddy County, New Mexico, being a standard 320-acre lay-down gas spacing unit in the Wolfcamp (Laguna Grande-Wolfcamp Gas Pool), Strawn, Atoka, and Morrow formations.

This 320-acre unit is to be dedicated to KUKUI's proposed Goodnight "35" Federal Well No. 3 (**API No. 30-015-31865**) to be drilled at an unorthodox gas well location 440 feet from the South line and 660 feet from the West line (Unit M) of Section 35.

This application has been duly filed under the provisions of Division Rule 104.F, as revised by Division Order No. R-11231, issued by the New Mexico Oil Conservation Commission in Case No. 12119 on August 12, 1999

It is our understanding the proposed Goodnight "35" Federal Well No. 3 is within the Oil/Potash "R-111-P" area, and is therefore subject to all applicable restrictions and rules therein. Also, geological concerns further necessitate the proposed location as requested.

The agreement between KUKUI, Devon, and Kaiser-Francis provides that: (i) Devon and Kaiser-Francis withdraw their objections to the proposed unorthodox well location, thereby eliminating the need for a hearing; (ii) a 33% production penalty be imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests which shall be witnessed by representatives of the Division and, if they so desire after being

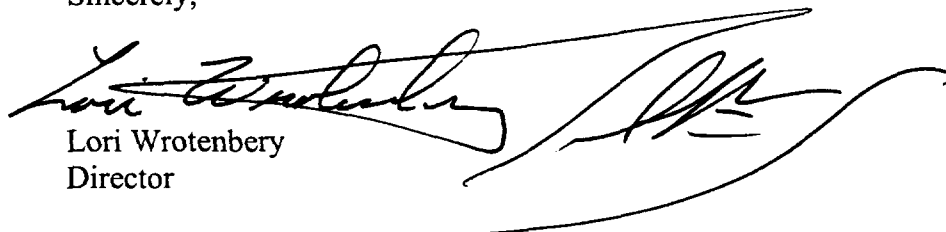
provided notice of the test, may be witnessed by Devon and Kaiser-Francis; and (iii) the imposition of a production penalty will not require that the well be produced at rates of less than 500 MCFPD.

Since the unorthodox well location is 33% closer to the outer boundary of the dedicated acreage that permitted by Division rule, the agreed to 33% production penalty and other conditions of the October 17, 2001 agreement are reasonable and will serve to prevent waste and protect correlative rights.

By the authority granted me under the provisions of Division Rule 104.F (2), the above described unorthodox gas well location for gas production from the Wolfcamp (Laguna Grande-Wolfcamp Gas Pool), Strawn, Atoka, and Morrow formations within the standard 320-acre lay-down gas spacing unit comprising the S/2 of Section 35 for KUKUI's proposed Goodnight "35" Federal Well No. 3 is hereby approved. Provided however, a 33% production penalty is hereby imposed on the ability of the Goodnight "35" Federal Well No. 3 to produce as determined by semi-annual deliverability tests, which shall be witnessed by representatives of the Division and, if they desire after being provided notice of the test, may be witnessed by Devon and Kaiser-Francis. It shall be provided further that the imposition of the 33% production penalty will not require that the well be produced at rates of less than 500 MCFPD.

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 - Artesia
U. S. Bureau of Land Management - Carlsbad
W. Thomas Kellahin, Esq., Legal Counsel for Devon SFS Operating, Inc. and Kaiser-
Francis Oil Company - Santa Fe
File: Case No. 12736 ✓