



NEW MEXICO ENERGY, MINERALS and
NATURAL RESOURCES DEPARTMENT

Bill Richardson
Governor
Joanna Prukop
Cabinet Secretary

March 18, 2003

010 - Aztec
Lori Wrotenbery
Director
Oil Conservation Division

30-045-31401
BP America Production Company
P. O. Box 3092
Houston, Texas 77253-3092

Attention: Mary Corley

Re: Administrative application for an exception to the well location provisions of the Basin-Fruitland Coal (Gas) Pool for BP America Production Company's proposed McEwen Gas Com. "D"-Well No. 1-S (administrative application reference No. pKRV0-304855688) to be drilled at an unorthodox infill gas well location within the N/2 equivalent of Section 5, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico, being an existing standard 320.25-acre lay-down gas spacing unit, 1075 feet from the North line and 240 feet from the West line (Lot 4/Unit D) of Section 5.

Dear Mr. Corley:

I have reviewed the subject application that was submitted to the Division on February 17, 2003. The proposed location and existing spacing unit are within the old Cedar Hill-Basel Coal Pool which was the subject several years ago of a dispute heard before a Division Examiner, the New Mexico Oil Conservation Commission, District Court, and finally the New Mexico Supreme Court concerning correlative rights issues with respect to mineral royalty ownership (see copy of Division Orders No. R-7588, R-7588-A, R-7588-B, R-7588-C, R-8653, and R-8653-A).

240 feet west of the proposed infill well is BP Production Company's ("BP") existing 320.39-acre stand-up gas spacing unit within the Basin-Fruitland Coal (Gas) Pool comprising the E/2 equivalent of Section 6, Township 31 North, Range 10 West, NMPM, San Juan County, New Mexico, and is dedicated to BP's Sammons Gas Com. "I" Well No. 1 (API No. 30-045-26087) located at a standard gas well location 945 feet from the North line and 1580 feet from the East line (Lot 2/Unit B) of Section 6. The Division's records indicate that the communitization agreement for the E/2 equivalent of Section 6 consists of 1/4 federal acreage (N/2 NE/4 equivalent of Section 6) and 3/4 fee acreage (S/2 NE/4 and the SE/4 of Section 6). The notification rules governing location exceptions [see Division Rule 1207.A (2)] only requires notification of the working interest when the application is also the offset operator. In this instance where: (i) the proposed well is only 240 feet from an offsetting lease with fee acreage that is assumed is different then the royalty interest within the N/2 equivalent of Section 5; and (ii) in an area that has experienced correlative rights issues concerning royalty owners, this application will not be reviewed administratively and will therefore be set for hearing.

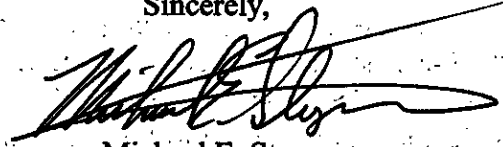
I have caused this application to be placed on the next available examiner's hearing docket scheduled for April 10, 2003 and have it advertised in the following manner:

"Application of BP America Production Company for an unorthodox infill coal gas well location, San Juan County, New Mexico. Applicant seeks an exception to the well location requirements provided the "Special Rules and Regulations for the Basin-Fruitland Coal Gas Pool," set forth in Division Order No. R-8768, as amended, for an unorthodox infill coal gas well location within an existing 320.25-acre lay-down gas spacing unit comprising Lots 1 through 4 and the S/2 N/2 (N/2 equivalent) of Section 5, Township 31 North, Range 10 West, which is located approximately one mile southwest of Cedar Hill, New Mexico. The applicant's proposed McEwen Gas Com. "D" Well No. 1-S is to be drilled 1075 feet from the North line and 240 feet from the West line (Lot 4/Unit D) of Section 5. This unit is currently dedicated to BP Production Company's McEwen Gas Com. "D" Well No. 1 (API No. 30-045-28172), located at a standard coal gas well location 1740 feet from the North line and 1190 feet from the East line (Unit H) of Section 5."

Because one the Division's primary concerns is the protection of correlative rights, I suggest, if BP cannot relocate or directionally drill this well to a standard location, that notification to all royalty interest within the E/2 equivalent of offsetting Section 6 is made prior to the hearing.

Should you have any questions concerning this matter, please contact your legal counsel, Mr. William F. Carr in Santa Fe at (505) 988-4421. Thank you.

Sincerely,



Michael E. Stogner
Chief Hearing Officer/Engineer

cc: New Mexico Oil Conservation Division - Aztec
William F. Carr, Legal Counsel for BP America Production Company - Santa Fe
Ms. Florene Davidson - NMOCD, Santa Fe
Ms. Kathy Valdes - NMOCD, Santa Fe