

JAMES BRUCE
ATTORNEY AT LAW

POST OFFICE BOX 1056
SANTA FE, NEW MEXICO 87504

369 MONTEZUMA, NO. 213
SANTA FE, NEW MEXICO 87501

(505) 982-2043 (PHONE)
(505) 982-2151 (FAX)

jamesbruce@aol.com

RECEIVED

MAY 27 2003

May 27, 2003

Oil Conservation Division

Hand Delivered

David K. Brooks
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

Re: Cases 13071 & 13072 (MYCO/Bass)

Dear Mr. Brooks:

Enclosed is the memorandum of Bass regarding operatorship of wells in the unit.

Also, please note the following:

1. Case 13071: The BLM's plats reflect that the W½ of Section 31 is comprised of Lots 1-4 and the E½W½, containing 311.32 acres. Thus, it is a non-standard unit in the Morrow and other formations spaced on 320 acres. Also, the SW¼ of Section 31 is a 155.32 acre non-standard unit.
2. Case 13071: Bass owns no interest in Lot 3 of Section 31, where the well in the W½ of Section 31 is located, so that acreage should not be pooled.
3. Case 13072: Bass owns the SE¼ of Section 31, where the well in the E½ of Section 31 is located, so the SE¼SE¼ and SE¼ of Section 31 acreage cannot be pooled.

Very truly yours,



James Bruce

Attorney for Bass Enterprises
Production Co., et al.

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

RECEIVED

MAY 27 2003

Oil Conservation Division

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

APPLICATION OF MYCO INDUSTRIES, INC.
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

Case No. 13071

APPLICATION OF MYCO INDUSTRIES, INC.
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

Case No. 13072

MEMORANDUM OF BASS ENTERPRISES PRODUCTION CO.

Chisholm Trail Ventures, Keystone, Inc., Lee M. Bass, Inc., Sid R. Bass, Inc., Thru Line, Inc., and Bass Enterprises Production Co. submit this memorandum regarding operating wells inside the Big Eddy Unit (the "Unit"). Bass Enterprises Production Co. ("Bass") represents the other interest owners named above.

I. INTRODUCTION.

MYCO Industries, Inc. ("MYCO"), in these two cases, proposes to drill two Morrow wells, one in the W½ of Section 31, and one in the E½ of Section 31, both in Township 21 South, Range 28 East, N.M.P.M. MYCO's acreage is not committed to the Unit, while Bass' acreage is committed. Bass is the Unit Operator. A plat depicting the leasehold situation is attached hereto as Exhibit A.

At the hearing in this matter, Bass requested that, if the pooling applications are granted, it be named operator of the two wells. This memorandum addresses that issue.

II. ARGUMENT.

The Unit Agreement for the Development and Operation of the Big Eddy Unit Area (the "Unit Agreement") was approved in 1952 by the Secretary of Interior, the Commissioner of Public Lands (the "Commissioner"), and the Oil Conservation Commission (by Order No. R-152). The unit covers over 130,000 acres of land in Eddy County and Lea County, as to depths below the base of the Delaware formation. With respect to Unit operations, the Unit Agreement provides:

8. RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the **exclusive** right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided.

(Emphasis added.) Thus, the Unit Operator (Bass) must operate any wells on lands committed to the Unit unless Bass executes a "designation of agent." **See Exhibit B** (BLM Unitization Handbook H-3180-1) **and Exhibit C** (a designation of agent executed by Bass several years ago).

In addition, all lands in a well unit proved to be productive of unitized substances in paying quantities are required to be included in a "participating area," whether or not a particular tract is committed to the Unit Agreement. **L. Lindley, Participating Areas, Paper 13A at p. 7, Federal Onshore Oil and Gas Pooling and Unitization II, R. Mtn. Min. L. Fndn., Vol. 1990, No. 1 (Jan. 1990).** Because Unit acreage is involved in the two cases before the Division, Bass must be named operator of both wells

because of Bass' obligations as Unit Operator to administer the Unit. According to the Unit Agreement, federal regulations, and mandates by the Bureau of Land Management, Commissioner, Division, and Taxation and Revenue Department Bass' duties include, but are not limited to, the preparation and submittal of the following documents:

- Plans of Development;
- Well Filings (APD's, sundry notices, well completion reports, site security filings, etc.);
- Commercial Well Determinations and Participating Area Applications;
- Reports of Sales and Royalty Remittances;
- Oil and Gas Taxation Detail Reports; and
- Oil and Gas Taxation Summary Reports.

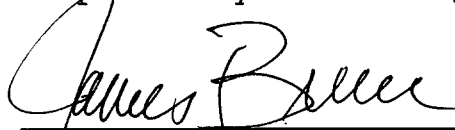
Failure to properly report production, pay royalties, and complete other duties of the Unit Operator may result in penalties against Bass. Vortt Exploration Co., MMS-86-0259-O&G (1986).

Moreover, although MYCO's two applications seek to force pool 320 acre well units, state spacing requirements do not control the boundaries of participating areas. Margaret D. Okie, et al., GS-115-O&G at 4 (1978), aff'd 43 IBLA 326, GFS(O&G) 156 (1979). Thus, additional unit acreage could be included in a participating area formed for one or both of the wells.

It is for these reasons that the BLM requires one operator in the Unit. See BLM Unitization Handbook H-3180-1, Part S.

WHEREFORE, Bass requests that, if the pooling applications are granted, the orders provide that Bass be designated operator.

Respectfully submitted,



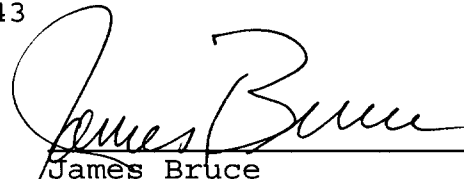
James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

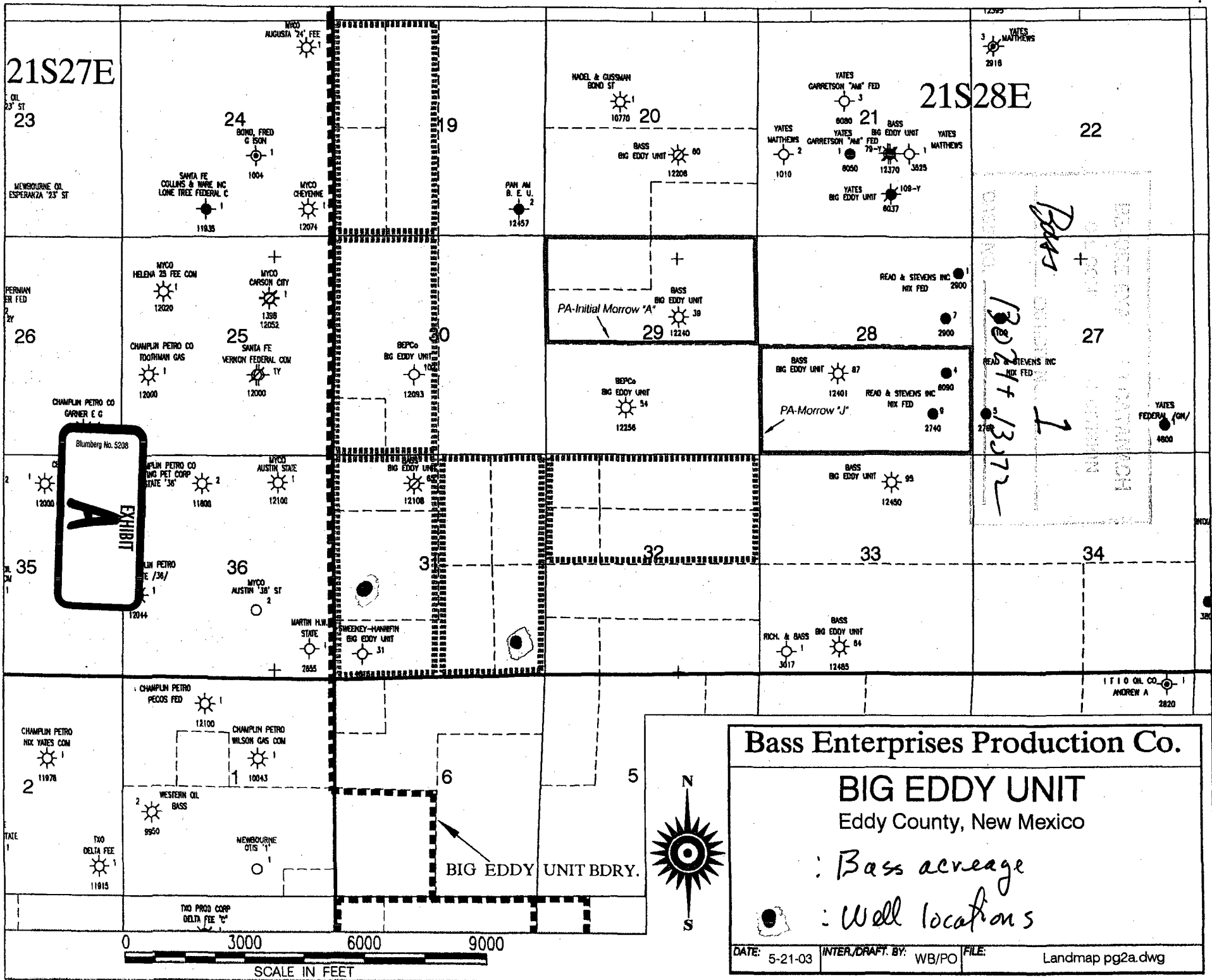
Attorney for Bass Enterprises
Production Co.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing pleading was served upon the following counsel of record via facsimile transmission and U.S. Mail this 27th day of May, 2003:

William F. Carr
Holland & Hart LLP
Post Office Box 2208
Santa Fe, New Mexico 87504
(505) 983-6043


James Bruce



H-3180-1 - UNITIZATION (EXPLORATORY)

3. Partially Committed (PC). In reference to a fee tract, partially committed indicates that the basic royalty interest owner has not signed, but the lessee and working interest have committed their interest. Absent a joinder by the basic royalty owner, such interest may be considered committed only if the underlying lease empowers the lessee/working interest owner to commit that interest to the unit agreement. In reference to a State or Federal tract, it indicates the lessee of record has not signed but the working interest owner has committed its interests (in some States, commitment under a State or fee by a lessee of record who owns no working interest is considered as unnecessary, and the tract may be considered as fully or effectively committed without such signature). A partially committed lease is not subject to segregation or any benefit by unit operations unless there are actual operations and/or production on the lease itself, or it is included within and receives an allocation of production under an approved participating area. Unitized drilling is permissible on a partially committed tract, but if unitized production is obtained on such a tract and a participating area is established on the basis thereof, the entire production must be allocated to the participating area, and the responsible working interest owner must pay the noncommitted parties their just royalty on a leasehold basis.

4. Not Committed (NC). Any tract in which a working interest has not been committed, regardless of other committed interest, is considered as not committed and is not subject to the unit agreement.

R. Designation of Agent.

Whenever a party other than the unit operator files an application for permit to drill a well on unitized land, the application must include an acceptable Designation of Agent from the unit operator (Illustration 8). This designation is for the drilling of the well only, and a clear understanding must be made as to who will operate the well if it discovers unitized substances capable of being produced in paying quantities (i.e., either the unit operator will take over operation of the well or the designated agent will be named as successor unit operator). Each designation must clearly state, or be accepted conditioned upon, who will operate the well if it discovers unitized substances in paying quantities. Upon approval or acceptance for record purposes (depending on the terms of the agreement), one copy of the Designation of Agent is returned to the unit operator, one copy sent to the designated agent, one copy is retained by the authorized officer and, if the authorized officer is a State Office official, one copy is forwarded to the appropriate District Office.



H-3180-1 - UNITIZATION (EXPLORATORY)

Format for Designation of Agent

(Submit in quadruplicate.)

(Appropriate Authorized Officer)

DESIGNATION OF AGENT

The undersigned is, on the records of the Bureau of Land Management, unit operator under the _____ unit agreement, _____ County, _____, No. _____, approved and effective on _____

and hereby designates

NAME:

ADDRESS:

as its agent, with full authority to act on its behalf in complying with the terms of the unit agreement and regulations applicable thereto and on whom the authorized officer or his representative may serve written or oral instructions in securing compliance with the oil and gas operating regulations with respect to drilling, testing, and completing unit well No. _____ in the _____ 1/4 _____ 1/4, Sec. _____, T. _____, R. _____, _____ County, _____.

It is understood that this designation of agent does not relieve the unit operator of responsibility for compliance with the terms of the unit agreement and the oil and gas operating regulations. It is also understood that this designation of agent does not constitute an assignment of any interest under the unit agreement or any lease committed thereto.

In case of default on the part of the designated agent, the unit operator will make full and prompt compliance with all regulations, lease terms, or orders of the Secretary of the Interior or his duly authorized representative.

The unit operator agrees promptly to notify the authorized officer of any change in the designated agent.

This designation of agent is deemed to be temporary and in no manner a permanent arrangement, and a designated agent may not designate another party as agent.

This designation is given only to enable the agent herein designated to drill the above specified unit well. Unless sooner terminated, this designation shall terminate when there is filed in the appropriate office of the Bureau of Land Management a completed file of all required Federal reports pertaining to the subject well. It is also understood that this designation of agent is limited to Field operations and does not include administrative actions requiring specific authorization of the unit operator.

H-3180-1 - UNITIZATION (EXPLORATORY)

Date

Unit Operator

NOTE: The designation of agent also must clearly state that either (1) the unit operator will take over the operation of any well(s) drilled under the designation if unitized production is obtained in paying quantities, or (2) that the designated agent will assume the duties of unit operator and will take over operation of all unit wells. In the absence of such statement, the authorized officer should condition his acceptance of the Designation of Agent on the above criteria.

DESIGNATION OF AGENT

The undersigned is, on the records of the Bureau of Land Management, unit operator under the Big Eddy Unit Agreement, Lea and Eddy Counties, New Mexico, No. 14-08-001-326, approved and effective the 1st day May, 1952, and hereby designates

NAME: Chi Operating, Inc. (herein referred to as "the designated agent")

ADDRESS: P. O. Box 1799
Midland, Texas

as its designated agent, with full authority to act in its behalf in complying with the terms of the unit agreement and regulations applicable thereto and on whom the authorized officer or its representative may serve written or oral instructions in securing compliance with the Oil and Gas Operating Regulations with respect to drilling, testing, and completing a unit well designated as the Big Eddy Unit No. 140 in the NE/4 (1,980' FNL & 990' FWL) of Section 16, T21S-R29E, Eddy County, New Mexico.

The designated agent agrees to perform all work hereunder in compliance with applicable Federal and State laws, orders, rules and regulations including, but not limited to, the proper plugging and abandonment and surface restoration associated with the above well. The designated agent further agrees to keep its operations free and clear of all claims or liens for labor and materials furnished or used in connection with the drilling of any well.

It is understood that this designation of agent does not relieve the unit operator of responsibility for compliance with the terms of the unit agreement and the Oil and Gas Operating Regulations. It is also understood that this designation of agent does not constitute an assignment of any interest under the unit agreement or any lease committed thereto.

In case of default on the part of the designated agent, the unit operator will make full and prompt compliance with all regulations, lease terms or orders of the Secretary of the Interior or his duly authorized representative.

The unit operator agrees promptly to notify the authorized officer of any change in the designated agent.

This designation of agent is deemed to be temporary and in no manner a permanent arrangement, and a designated agent may not designate another party as agent.

The designated agent agrees to assume all liability therefore and indemnify, and save harmless the unit operator and its affiliated companies and their agents, servants, directors, officers and employees (collectively "Indemnities") from and against any and all liabilities, damages, claims (including claims under any bond), suits, costs (including court costs, attorney's fees and costs of investigations), penalties and actions of any kind arising out of or alleged to arise by reason of injury to or death of any person or damage to or loss of property, including consequential damages arising therefrom, or by reason of any other claim whatsoever of any person or party arising out of, incident to, or in connection with any operation hereunder of designated agent or of any invitee, licensee, employee, director, officer, servant, contractor or subcontractor of designated agent, or by reason of any breach, violation, or non-performance by designated agent or any invitee, licensee, employee, director, officer, servant, contractor or subcontractor of designated agent of any covenant, duty, obligation, associated vision or condition, express or implied, contained in any oil and gas lease, or intermediate assignment thereof, unit agreement, or governmental regulation associated with the above well, excluding only any cost, damage or injury attributed solely to the negligence of any Indemnities.



The designated agent will provide copies of all well information including, but not limited to, drilling and completion reports, logs, tests, surveys, location plats, right-of-ways, permits and any other information obtained from the above well, to the unit operator within five (5) business days after receipt of a request for such information from the unit operator.

This designation is given only to enable the agent herein designated to drill and complete the above specified unit well. Unless sooner terminated, this designation shall terminate when there is filed in the appropriate Office of the Bureau of Land Management a completed file of all required Federal reports pertaining to the subject well. It is also understood that this designation of agent is limited to field operations and does not cover administrative action requiring specific authorization of the unit operator. The unit operator will have the option to take over the operation of any well drilled under this designation if production is obtained and must take over operations in the event production is obtained in paying quantities.

BASS ENTERPRISES PRODUCTION CO.

By: W. Frank McCreight
W. Frank McCreight
Vice-President

Date: 1-22-98

CHI OPERATING, INC.

By: William R. Bergman
William R. Bergman
Vice-President

Date: 1-16-98

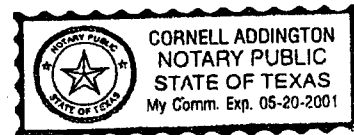
STATE OF TEXAS }
COUNTY OF TARRANT }

The foregoing instrument was acknowledged before me on the 22 day of January, 1998 by W. Frank McCreight, Vice President of Bass Enterprises Production Co., a Texas corporation, on behalf of said corporation.

My Commission Expires:
5-20-2001

STATE OF TEXAS }
COUNTY OF MIDLAND }

Cornell Addington
NOTARY PUBLIC, STATE OF TEXAS



The foregoing instrument was acknowledged before me on this 16th day of January, 1998, by William R. Bergman, Vice-President of Chi Energy, Inc., a Texas corporation, on behalf of said corporation.

John W. Chiles
NOTARY PUBLIC, STATE OF TEXAS