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RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

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June 27, 1994

HAND DELIVERED

JUN 28 1994

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87501

11040

Re: Application of Maralo, Inc. for the Creation
of a New Pool for production from the Bone
Springs Formation including the Classification
of Said Pool as an Associated Pool with
the Adoption of Special Pool Rules,
Eddy County, New Mexico.

Dear Mr. Stogner:

On behalf of Maralo Inc., please find enclosed our referenced application which we request be set for hearing on the next available Examiner's docket now scheduled for July 21, 1994.

By copy of this letter and application, sent regular mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the hearing may preclude them from any involvement in this case at a later date.

Mr. Michael E. Stogner
June 27, 1994
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Pursuant to the Division's Memorandum 2-90, all parties are hereby informed that if they appear in this case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, July 15, 1994, with a copy delivered to the undersigned.

Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written in a cursive style.

W. Thomas Kellahin

cc: Maralo, Inc.
attn: Mr. John Thoma

PROPOSED ADVERTISEMENT

CASE 11040 Application of Maralo Inc. for creation and classification of a new oil pool as an Associated Pool and special rules therefor, Eddy County, New Mexico. Applicant, in the above styled cause, seeks an order creating a new oil pool to be designated the Burton Flat-Bone Springs Pool for production from the Bone Springs formation and the classification of said pool as an Associated Pool with the promulgation of Special Pool Rules and Regulations for the pool including 80-acre oil and 160-acre gas spacing and proration units and a special limiting gas-oil ratio of 8,000 cubic feet of gas per barrel of oil produced. Said pool is located in the NE/4 of Section 32, T20S, R28E, and is situated approximately 4 miles south from Seven Rivers, New Mexico.

**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:

2 8 1994

APPLICATION OF MARALO INC. FOR THE CREATION
OF A NEW POOL FOR BONE SPRINGS FORMATION
PRODUCTION INCLUDING THE CLASSIFICATION OF
SAID POOL AS AN ASSOCIATED POOL WITH THE
ADOPTION OF SPECIAL RULES,
EDDY COUNTY, NEW MEXICO.

CASE NO. 11040

A P P L I C A T I O N

Comes now Maralo, Inc., by its attorneys, Kellahin & Kellahin, and applies to the New Mexico Oil Conservation for the creation of a new oil pool to be designated the Burton Flat-Bone Springs Pool for production from the Bones Springs formation and the classification of said pool as an Associated Pool with the promulgation of Special Rules and Regulations for the pool including 80-acre oil and 160-acre gas spacing and proration units and a special limiting gas-oil ratio of 8,000 cubic feet of gas per barrel of oil produced,

and in support thereof states:

NMOCD Application
Maralo Inc.
Page 2

1. Maralo Inc. has drilled, completed and now operates its Keystone Well No. 1, located 1980 feet from the North and East lines (Unit G) of Section 32, Township 20 South, Range 28 East, NMPM, Eddy County, New Mexico.

2. This well constitutes a "new oil discovery" for the production of oil from the Bone Springs formation.

3. Based upon this discovery, Maralo Inc. seeks the creation of a new pool to be designated the Burton Flat-Bone Springs Pool which shall be defined as all of the Bone Springs formation as identified on the log of the discovery well, the top of which is located at 6310 feet and the bottom of which is located 6545 feet with an initial pool boundary consisting of:

TOWNSHIP 20 SOUTH, RANGE 28 EAST
Section 32: NE/4

4. In addition, Maralo requests that this pool be classified as an "Associated Pool" and operated in accordance with the Division's General Rules and Regulations for Associated Pools as promulgated by Division Order R-5353 subject to the adoption of the following Special Rules and Regulations for this pool:

- (a) 80-acre oil spacing and proration units;
- (b) 160-acre gas spacing or proration units; and
- (c) a special limiting gas oil ratio of 8,000 cubic feet of gas per barrel of oil;
- (d) a special depth bracket maximum oil allowable of 222 barrels of oil per day per spacing unit;
- (e) with a maximum gas allowable of 1776 MCFPD per 80-acre oil proration and spacing unit; and

(f) that each well completed or recompleted in the Burton Flat-Bone Springs Pool or the Bone Springs formation within one mile thereof, shall be spaced, drilled operated and produced in accordance with these special rules.

5. Based upon data from the discovery well, including PVT data, the initial rules for the pool should provide for a special gas-oil ratio of 8,000 cubic feet of gas per barrel of oil which when combined with 80-acre oil spacing provides the opportunity to produce the discovery well at its most efficient rate thereby preventing waste.

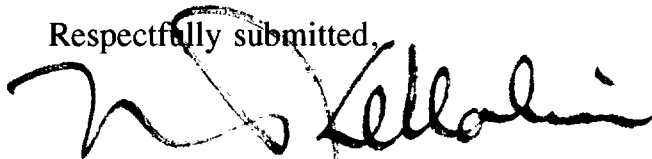
6. That special GOR limitation when combined with 80-acre oil spacing and proration units will prevent the drilling of unnecessary wells, protect correlative rights and provide for the orderly development of the reservoir.

7. The proposed maximum gas allowable per 80-acre oil proration and spacing unit shall be set in the pool to avoid any adverse affect on ultimate oil recovery;

8. Notification of this application and request for hearing to be held on July 21, 1994 has been sent to those parties identified on Exhibit "A" attached.

Wherefore, Applicant requests that, after notice and hearing, this application be granted.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over a circular stamp that is partially obscured by the signature.

W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87501

EXHIBIT "A"

Collins & Ware, Inc.
Hightower Bldg., #701
Midland, Texas 79701

Exxon Corporation
P.O. Box 1600
Midland, Texas 79702

BHP Petroleum, Inc.
5847 San Felipe, #3600
Houston, Texas 77001

Oxy U.S.A., Inc.
P.O. Box 50250
Midland, Texas 79710
Attn: Rick Foppiano

Chevron U.S.A., Inc.
P.O. Box 1150
Midland, Texas 79702

Martin, Williams & Judson
413 1st National Bank
Midland, Texas 79702

Devon Energy Corporation
20 N. Broadway, Ste. 1500
Oklahoma City, Oklahoma 73102

Matador Petroleum Corporation
8340 Meadow Road, Ste. 158
Dallas, Texas 75231

Bridge Oil Company, LP
12377 Merit Drive, #1600
Dallas, Texas 75231

Merit Energy Partners, LP
1221 Merit Drive, #1040
Dallas, Texas 75231

Merit Energy Partners II, LP
1221 Merit Drive, # 1040
Dallas, Texas 75231

Merit Energy Partners III, LP
1221 Merit Drive, #1040
Dallas, Texas 75231

Chevron U.S.A.
P.O.Box 1635
Houston, Texas 77002

Yates Petroleum Corporation
105 S. 4th Street
Artesia, New Mexico 88210

Yates Drilling Co.
105 S. 4th Street
Artesia, New Mexico 88210

ABO Petroleum Corporation
105 S. 4th Street
Artesia, New Mexico 88210

Myco Industries, Inc.
105 S. 4th Street
Artesia, New Mexico 88210

Coquina Oil Corporation
1717 St. James Place, Ste. 200
Houston, Texas 77056

Edward R. Hudson, Jr., Esq.
Individually and as Attorney in fact for:
William A. Hudson II and Mary H. Ard
616 Texas Street
Fort Worth, Texas 76102

Claremont Corporation
PO Box 549
Claremore, Oklahoma 74108

North American Royalties
306 West Wall, Ste. 1400
Midland, Texas 79701