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W. THOMAS KELLAHIN*

*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

July 12, 1994

HAND DELIVERED

Mr. Michael E. Stogner
Chief Hearing Examiner
Oil Conservation Division
310 Old Santa Fe Trail, Room 219
P. O. Box 2088
Santa Fe, New Mexico 87501

11065

Re: Mallon "34" Federal Well No. 6
NE/4NW/4 Section 34, T19S, R34E, NMPM
Application of Mallon Oil Company for
Compulsory Pooling, Lea County, New Mexico

Dear Mr. Stogner:

On behalf of Mallon Oil Company, please find enclosed our application for compulsory pooling which we request be set for hearing on the Examiner's docket now scheduled for August 4, 1994. Also enclosed is our proposed notice of publication for this case.

By copy of this letter, including the application, to all affected parties, we are notifying them by certified mail-return receipt requested, that they have the right to appear at the hearing, to make a statement to the Division, to present evidence and cross-examine witnesses either in support of or in opposition to the application.

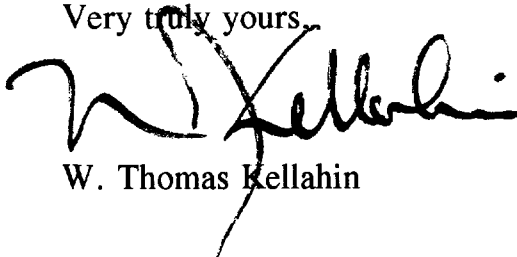
Oil Conservation Division

July 12, 1994

Page 2.

Pursuant to the Division's Memorandum 2-90, all interested parties are hereby informed that if they appear in the case, then they are requested to file a Pre-Hearing Statement with the Division not later than 4:00 pm on Friday, July 29, 1994, with a copy delivered to the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "W. Thomas Kellahin". The signature is fluid and cursive, with a large initial "W" and a long, sweeping underline.

W. Thomas Kellahin

Enclosure

cc: Mallon Oil Company

BY CERTIFIED MAIL-RETURN RECEIPT REQUESTED

to: Parties listed in application

11065

CASE ____: Application of Mallon Oil Company for compulsory pooling, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Delaware formation underlying the NE/4NW/4 of Section 34, T19S, R34E, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent. Said unit is to be dedicated to its Mallon "34" Federal Well No. 6 to be drilled and completed at a standard oil well location within said unit. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well. Said unit is located approximately 6 miles east of Laguna Tonto, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF MALLON OIL COMPANY
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO. 11065

A P P L I C A T I O N

Comes now MALLON OIL COMPANY, by its attorneys, Kellahin & Kellahin, and in accordance with Section 70-2-17(c) (1978) applies to the New Mexico Oil Conservation Division for an order pooling all mineral interests from the surface to the base of the Delaware formation underlying the NE/4NW/4 of Section 34, T19S, R34E, NMPM, Lea County, New Mexico, forming a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre oil spacing within said vertical extent. Said unit is to be dedicated to its Mallon "34" Federal Well No. 6 to be drilled and completed at a standard oil well location within said unit. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in drilling said well.

In support of its application, Mallon Oil Company ("Mallon") states:

1. Mallon has a working interest ownership in the oil and gas minerals underlying the NE/4NW/4 of Section 34, T19S, R34E, NMPM, Lea County, New Mexico.

2. Mallon has the voluntary agreement of approximately 68% of the working interest ownership of the oil & gas minerals from the surface to the base of the Delaware formation underlying the NE/4NW/4 of Section 34.

3. Mallon has proposed the subject well and its spacing unit to the remaining working interest owner in an effort to reach a voluntary agreement.

4. Despite its good faith efforts, Mallon has been unable to obtain a written voluntary agreement from the following parties:

PARTY:

Devon Energy Corporation
20 N. Broadway, Ste 1500
Oklahoma City, Oklahoma 73102
Attn: Mr. Ken Gray

El Paso Natural Gas Company
c/o Meridian Oil Inc.
P. O. Box 51810
Midland, Texas 79710
Attn: Mr. Don Davis

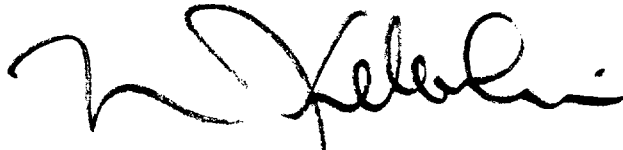
5. Pursuant to Section 70-2-17(c) NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Mallon needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

6. In accordance with the Division's notice requirements, a copy of this application has been sent to the interest party listed in paragraph (4) above notifying each party of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for August 4, 1994.

WHEREFORE, Mallon Oil Company, as applicant, requests that this application be set for hearing on August 4, 1994 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in this spacing unit for the drilling of the subject well at a standard oil well location upon terms and conditions which include:

- (1) Mallon Oil Company be named operator;
- (2) The order make provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200 %;
- (4) A provision for overhead rates and a method for adjusting those rates in accordance with COPAS accounting procedures;
- (5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', written over a horizontal line.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
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