

KELLAHIN AND KELLAHIN

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN*

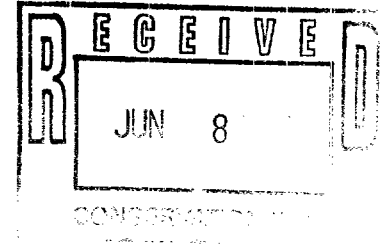
*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
RECOGNIZED SPECIALIST IN THE AREA OF
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

June 18, 1996

HAND DELIVERED



Mr. Michael E. Stogner
Oil Conservation Division
2040 South Pacheco
P. O. Box 6429
Santa Fe, New Mexico 87505

Re: Application of Conoco Inc.
to increase the vertical limits for the
Warren San Andres Pool to include the Grayburg
formation, to rename the pool and to adopt
special rules and regulations for said pool,
Lea County, New Mexico

Dear Mr. Stogner:

On behalf of Conoco 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 11, 1996.

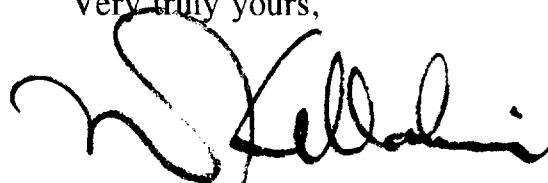
By copy of this letter and application, sent certified mail, we are notifying all interested parties of their right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application and that failure to appear at the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

Mr. Michael E. Stogner
June 18, 1996
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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 5, 1996, with a copy delivered to the undersigned.

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

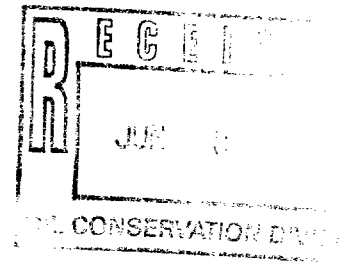
Very truly yours,

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

W. Thomas Kellahin

WTK/tk
Enclosure

cc: Conoco Inc. , and
By Certified Mail - Return Receipt
All Parties Listed on Exhibit "A" of Application

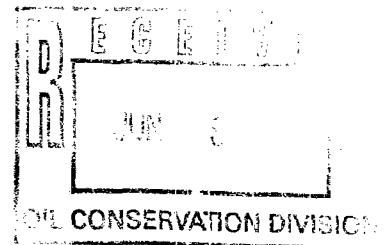


PROPOSED ADVERTISEMENT

CASE 11667 Application of Conoco Inc. to increase the vertical limits for the Warren San Andres Pool, to rename said pool and for the promulgation of special rules and regulations therefore, Lea County, New Mexico. Applicant, in the above-styled cause, seeks to increase the vertical limits in the Warren San Andres Pool to include the Grayburg formation and to rename the pool the Warren-San Andres-Grayburg Pool which currently includes the SE/4 of Section 28, Township 20 South, Range 38 East, NMPM. Applicant further seeks the promulgation of special rules and regulations for said pool including a maximum oil allowable of 200 BOPD per 40-acre spacing unit and a special gas-oil ratio of 10,000 cubic feet of gas per barrel of oil. Said pool is located approximately 7 miles north of Eunice, 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:



CASE: 11567

APPLICATION OF CONOCO INC. TO INCREASE
THE VERTICAL LIMITS OF THE WARREN SAN ANDRES
POOL TO INCLUDE THE GRAYBURG FORMATION, TO
ESTABLISH POOL RULES FOR THE RESULTING RENAMED
WARREN GRAYBURG SAN ANDRES POOL, AND FOR
ALLOWABLE EXCEPTIONS TO RULES 505 AND 506

APPLICATION

Comes now CONOCO INC., ("Conoco") by and through its attorneys, Kellahin and Kellahin, and applies to the New Mexico Oil Conservation division for approval to increase the vertical limits of the Warren San Andres Pool to include the Grayburg formation, to establish pool rules for the recommended expanded pool, to be renamed the Warren Grayburg San Andres Pool, and for allowable exceptions to Rules 505 and 506.

In support of its application, Conoco states:

(1) Conoco is the current operator of the Warren Unit consisting of all or parts of Sections 20, 21, 22, 26, 27, 28, 29, 33, 34, and 35 of Township 20 South, Range 38 East, Lea County, New Mexico.

(2) In November, 1994 Conoco completed an exploratory test of the San Andres formation in its Warren Unit 108 (see Exhibit A). Two different productive San Andres intervals, essentially separate reservoirs, were discovered with the lower completed for 80 bopd and 75 mcfpgd and the upper completed for 45 bopd and 50 mcfpgd. Well No. 108 should have a total rate of 125 bopd and 125 mcfpgd.

(3) The creation of a new pool, the Warren San Andres Pool, was requested and approved by Order No. R-10342 on May 1, 1995. The default depth bracket allowable for this new pool was 80 bopd and 160 mcfcpd (2000 limiting GOR). Although the combination of these two intervals was significantly higher than the 80 bopd allowable, because of dual completion mechanical problems the Warren Unit No. 108 has not been produced above the allowable to date.

(4) In November, 1995 Conoco completed only the lower San Andres in the Warren Unit No. 100, a 40-acre offset to No. 108 (See Exhibit A). This lower interval was capable of producing 120 bopd and 100 mcfcpd.

(5) Logs from both of these two San Andres wells (Nos. 108 and 100) show the upper San Andres and the lower part of the Grayburg, immediately above it, to be a continuous porosity section without evidence of any sealing barrier between the two formations. Therefore, Conoco contacted the Hobbs District Office and requested that the Grayburg formation be added to the vertical nomenclature of the Warren San Andres Pool. This request and permission to include the lower Grayburg in a planned upper San Andres completion Warren Unit No. 100 was approved.

(6) In May, 1996 a plug was set over the lower San Andres completion in No. 100 and the upper San Andres and lower Grayburg interval was completed. This completion is currently capable of flowing 75 bopd and 1751 mcfcpd alone. Adding the production from the lower interval, currently below a plug, would give Well No. 100 a total producing capacity of 195 bopd and 1851 mcfcpd.

(7) In June, 1996 a third well, the Warren Unit No. 125, was completed in the San Andres (See Exhibit A). To evaluate whether the unusually high gas production from the upper San Andres and lower Grayburg completion in Well No. 100 was anomalous or more wide spread, only the upper San Andres and lower Grayburg interval was completed in the new well, No. 125. This comparable interval was completed, flowing, for 80 bopd and 130 mcfcpd in Well No. 125. Logs and structural position would indicate that the lower San Andres could also be completed for the 120 bopd that was found in the same interval in the offsetting Well No. 108. This would give Well No. 125 a total producing rate of 200 bopd and 230 mcfcpd.

(8) All three of these Grayburg San Andres wells are located on the crest of a limited, closed anticlinal structure, located entirely within the Warren Unit boundary. Exhibit B shows the lowest structural contour which is believed to be the limit of producible hydrocarbons from this pool. Exhibit B also shows the proposed full development of the pool with projected new wells to be drilled over the remainder of 1996 and 1997.

(9) All of the first three wells, Nos. 108, 100, and 125, support the need for a higher oil depth bracket allowable of 200 bopd. This appears to be a solution gas reservoir and would not be damaged or cause waste if produced at its capacity oil rate.

(10) While the producing gas GOR's of Wells No. 108 and 125 are quite low, around 1000, the total producing GOR of No. 100 would be 9,492. If the oil depth bracket allowable were increased to 200 bopd for this pool, this producing GOR would require a 10,000 limiting GOR to avoid curtailment. Therefore, in addition to an oil allowable increase to 200 bopd, a 10,000 limiting GOR is also requested for the expanded Warren Grayburg San Andres Pool.

(11) Attempts to curtail gas production in Warren Unit No. 100 by reducing choke settings in several stages resulted in the loss of all oil production at a gas producing rate of 1200 mcf/gpd. All testing and reservoir data appears to indicate that this unusually anomalous gas production, found only in Well No. 100, is a limited gas pocket. Producing at capacity should have no effect on the ultimate recovery of this or any offset wells. In fact any attempts to curtail its rate will result in the loss of significant oil reserves.

(12) These proposed pool changes and rule exceptions are necessary in order for the applicant to efficiently and economically maximize the recovery of Grayburg and San Andres reserves in this pool.

(13) Approval of these rule exceptions will prevent waste and will not damage the correlative rights of the Warren Unit interest owners or any offset operators.

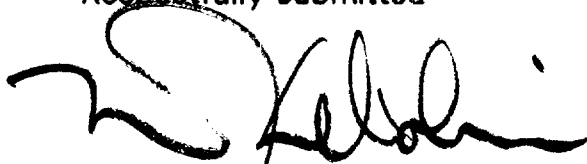
(14) Approval of the ~~exceptions~~ to Rule 505 and Rule 506 is requested to be made effective retroactive to the discovery of the pool in November, 1994.

(15) Conoco requests that this matter be docketed for hearing on the Division's Examiner docket now scheduled for July 11, 1996.

(16) A copy of this application is being sent to all offsetting operators within a mile of the current limit of this pool as shown on Exhibit A.

WHEREFORE Applicant requests that this matter be set for hearing on July 11, 1996 before a duly appointed Examiner of the Oil Conservation Division and that after notice and hearing as required by law, the Division enter its order granting this application.

Respectfully submitted

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

W. Thomas Kellahin
KELLAHIN and KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285
Attorneys for Applicant

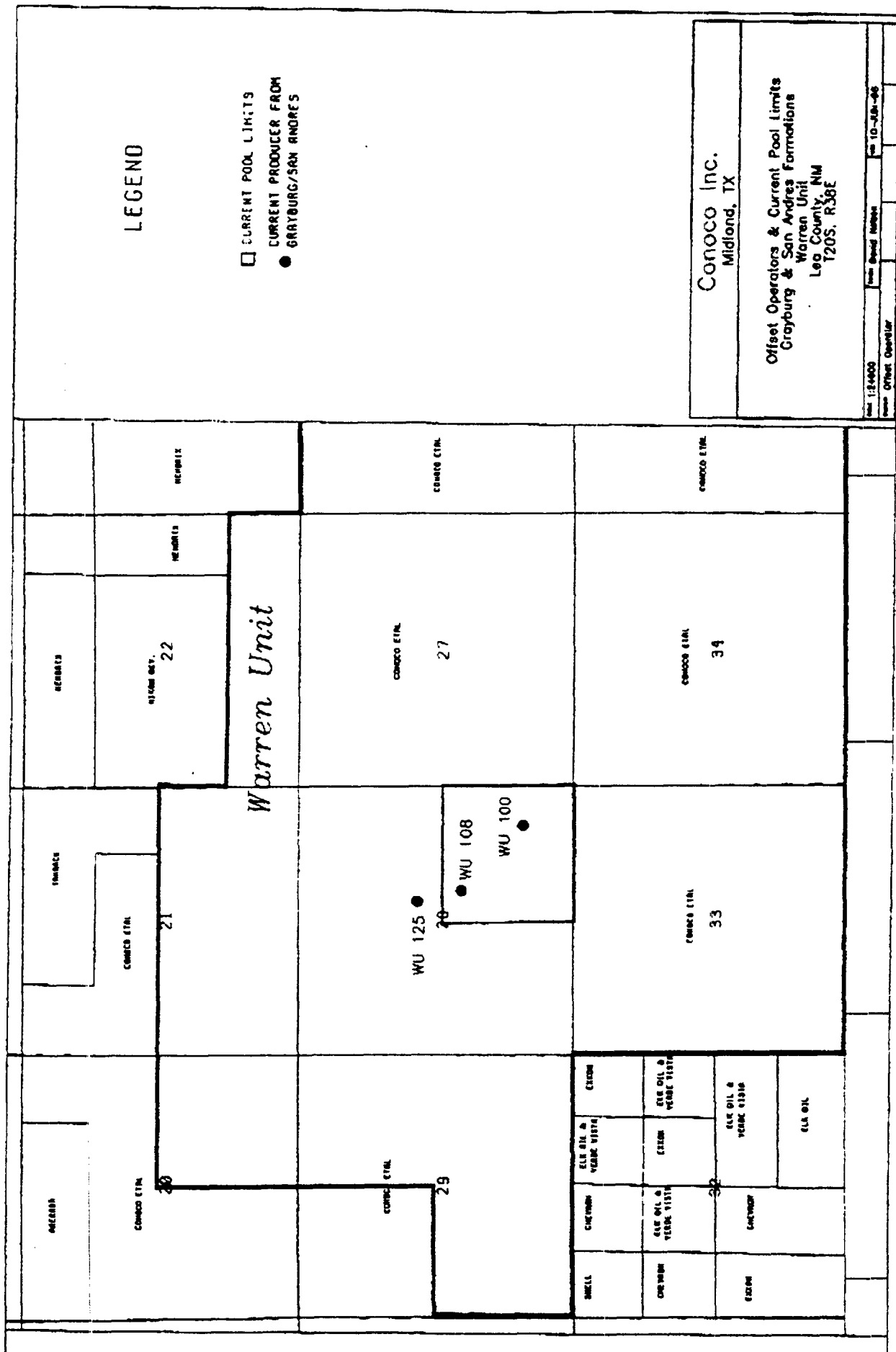


EXHIBIT A