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*NEW MEXICO BOARD OF LEGAL SPECIALIZATION
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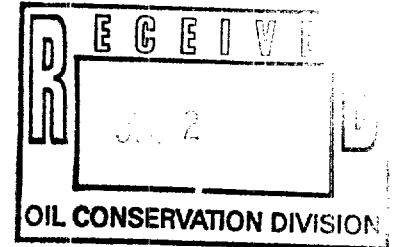
JASON KELLAHIN (RETIRED 1991)

TELEPHONE (505) 982-4285
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July 2, 1996

HAND DELIVERED

Mr. William J. LeMay, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505



115112

Re:

**Application of Hallwood Petroleum Inc.
for Compulsory Pooling
San Juan County, New Mexico**

Dear Mr. LeMay:

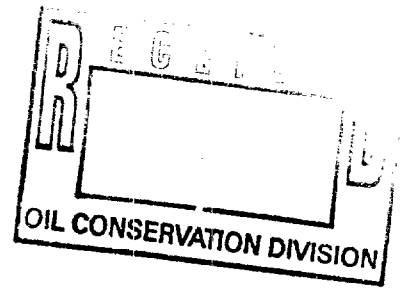
On behalf of Hallwood Petroleum Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for July 25, 1996. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

A handwritten signature in dark ink, appearing to read "W. Thomas Kellahin".

W. Thomas Kellahin

cc: Hallwood Petroleum Inc.
Attn: Connie Heath

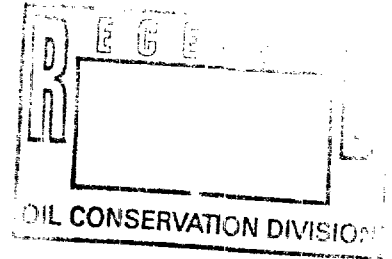


CASE ¹⁴⁷: Application of Hallwood Petroleum Inc. for compulsory pooling, San Juan County, New Mexico. Applicant seeks an order pooling all mineral interests in the Basin Fruitland Coal Gas Pool underlying the N/2 of Section 27, T32N, R13W, NMPM, San Juan County, New Mexico, forming a standard 320-acre spacing and proration unit for any production from the Undesignated Basin Fruitland Coal Gas Pool. Said unit is to be dedicated to its Mead 27-1 Well to be drilled and completed at a standard well location in Unit H of said Section 27. 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 Hallwood Petroleum Inc. as the operator of the well and a charge for risk involved in said well.

Said unit is located approximately 2-1/2 miles north from La Plata, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF HALLWOOD PETROLEUM INC.
FOR COMPULSORY POOLING,
SAN JUAN COUNTY, NEW MEXICO.



CASE NO. 11572

A P P L I C A T I O N

Comes now HALLWOOD PETROLEUM INC., 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 in the Basin Fruitland Coal Gas Pool underlying the N/2 of Section 27, T32N, R13W, NMPM, San Juan County, New Mexico, forming a standard 320-acre spacing and proration unit for any production from the Undesignated Basin Fruitland Coal Gas Pool. Said unit is to be dedicated to its Mead 27-1 Well No. to be drilled and completed at a standard well location in Unit H of said Section 27. 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 Hallwood Petroleum Inc. as the operator of the well and a charge for risk involved in said well.

In support of its application, Hallwood Petroleum Inc., ("Hallwood") states:

1. Hallwood has a working interest ownership in the oil and gas minerals in the Basin Fruitland Coal Gas Pool underlying the N/2 of Section 27, T32N, R13W, NMPM, San Juan County, New Mexico.

2. The subject well is to be drilled at a standard well location in Unit H of Section 27 to test for production from the Fruitland Coal formation and to be dedicated to a spacing unit consisting of the N/2 of said Section 27.

3. Hallwood has proposed the subject well and its appropriate spacing unit to all of the working interest owners in the spacing unit.

4. Hallwood has the voluntary agreement of certain of the working interest ownership of the oil & gas minerals in the Fruitland Coal formation underlying the N/2 of Section 27.

5. Despite its good faith efforts, Hallwood has been unable to obtain a written voluntary agreement from all of the parties listed on Exhibit "A."

6. 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, Hallwood needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.

7. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each 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 July 25, 1996.

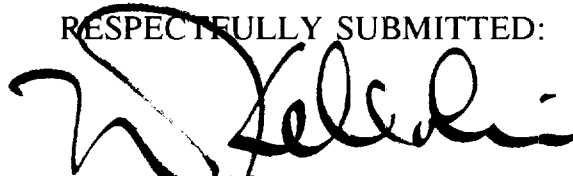
WHEREFORE, Hallwood, as applicant, requests that this application be set for hearing on July 25, 1995 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for the drilling of the subject well at a standard well location upon terms and conditions which include:

(1) Hallwood Petroleum Inc. be named operator;

(2) 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) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;
- (5) Provisions pooling any non-participating royalty interests owners; and
- (6) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', is written over the typed name and address.

W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

EXHIBIT "A"
HALLWOOD APPLICATION

Merrion Oil & Gas Corp.
Box 840
Farmington, New Mexico 87499
Attn: George Sharp