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JASON KELLAHIN (RETIRED 1991)

September 27, 1996

VIA FACSIMILE

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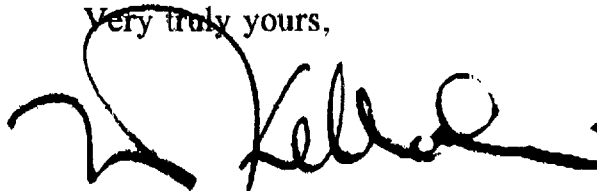
Mr. Michael E. Stogner
Hearing Examiner
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

Re: NMOCD Case 11618
Application of Costilla Petroleum
Corporation for Compulsory Pooling,
Eddy County, New Mexico

Dear Mr Stogner:

On behalf of Kaiser-Francis Oil Company, please find enclosed our pre-hearing statement filed in opposition to the applicant in a case set for hearing on October 3, 1996.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Thomas Kellahin', with a large, stylized initial 'W'.

W. Thomas Kellahin

cc: William F. Carr, Esq.
Attorney for applicant
cc: Kaiser-Francis Oil Company
Attn: James T. Wakefield

**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 NO. 11618

APPLICATION OF COSTILLA PETROLEUM CORPORATION
FOR COMPULSORY POOLING
EDDY COUNTY, NEW MEXICO.

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by KAISER-FRANCIS OIL
COMPANY as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

Costilla Petroleum Corporation

ATTORNEY

William F. Carr, Esq.
P. O. Box 2208
Santa Fe, New Mexico 87504
(505) 9884421

OPPONENT

Kaiser-Francis Oil Company
P. O. Box 21468
Tulsa, Oklahoma 74121-1468
Attn: James T. Wakefield
(918) 491-4510

ATTORNEY

W. Thomas Kellahin
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STATEMENT OF CASE

OPPONENT

Costilla has proposed to drill a Delaware test to a total depth of 7,000 feet in a 40-acre oil spacing unit where Kaiser-Francis has an 18.75 % WI from the surface to 5,870 feet.

The portion of the Delaware expected to be productive at this location is estimated to be approximately 200 feet thick and located between 5,700 feet to 5,900 feet in depth. Thus 170 feet of this 200 foot interval is within Kaiser-Francis ownership interval.

However, Costilla has proposed that Kaiser-Francis's interest should be calculated based upon a ratio of this 170 feet to 5,870 feet versus the 1,300 foot difference between 5,700 feet and the planned total depth of the well $[(170/1300) \times 18.75 \%$ or a 2.4519 % interest to Kaiser-Francis.

Costilla has further advised that if Kaiser-Francis fails to accept this proposal, then Costilla intends to complete this well just below 5,870 feet in an attempt to produce Kaiser-Francis share of this production without any compensation to Kaiser-Francis.

Kaiser-Francis requests that the Division adopt a depth formula based upon the ratio of depth owned versus depth drilled $[(5,870/7,000) \times 18.75 \%$ which results in Kaiser-Francis owning a 15.72 % interest.

The cost allocation formula proposed by Costilla is **contrary to and inconsistent** with the allocation formula used by both the New Mexico Oil Conservation Division ("NMOCD") and the Council of Petroleum Accountants Societies ("COPAS") Bulletin No. 2, dated September, 1965 entitled Determination of Values for Well Costs Adjustments Join Operations. See COPAS Bulletin Part B.2 on page 5 and NMOCD Order R-9093-C entered in Case 9998 (Reopened).

In summary, both the NMOCD and COPAS use a depth allocation formula identical with the depth allocation formula proposed by Kaiser-Francis Oil Company which results in a 15.72 % WI.

In addition, the NMOCD and COPAS allocation formulas would function so that Kaiser-Francis would pay 15.72 % of the costs from the surface to 5,870 feet and none of the costs below that depth.

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PROPOSED EVIDENCE


APPLICANT

WITNESSES	EST. TIME	EXHIBITS
Wayne Fields, Landman	30 Min	@ 4
James T. Wakefield (P.E.)	30 min	@ 4

PROCEDURAL MATTERS

None at this time.

KELLAHIN AND KELLAHIN

By: 

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