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December 17, 1996

HAND DELIVERED

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

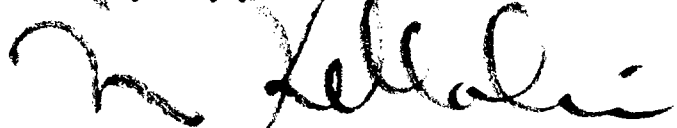
11686

**Re: McKittrick "29" Well No. 1
W/2 Sec 29, T22S, R26E
Application of Louis Dreyfus Natural Gas Corp.
for Compulsory Pooling
Eddy County, New Mexico**

Dear Mr. LeMay:

On behalf of Louis Dreyfus Natural Gas Corp., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for January 9, 1997. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Louis Dreyfus Natural Gas Corp.
Attn: Russell R. Waters

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

IN THE MATTER OF THE APPLICATION
OF LOUIS DREYFUS NATURAL GAS CORP.
FOR COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

CASE NO. 11686

A P P L I C A T I O N

Comes now LOUIS DREYFUS NATURAL GAS CORP. 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 W/2 of Section 29, T22S, R26E, NMPM, Eddy County, New Mexico, forming a standard 320-acre gas spacing and proration unit underlying the W/2 of said Section 29 for any and all formations and/or pools spaced on 320-acre spacing, including but not limited to the Happy Valley-Morrow Gas Pool, Undesignated South Happy Valley-Atoka Gas Pool, Undesignated Sheep Draw-Strawn Gas Pool and Undesignated Southeast Carlsbad-Wolfcamp Gas Pool;

and the NW/4 of said Section 29 for any and all pools or formations spaced on 160-acres. Said unit(s) is to be dedicated to its McKittrick "29" Well No. 1 to be drilled and completed at a standard well location in said Section 29. 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 said well.

In support of its application, Louis Dreyfus Natural Gas Corp., ("Dreyfus") states:

1. Dreyfus has 60% of the working interest ownership in the oil and gas minerals from the surface to the base of the Morrow formation underlying the W/2 of Section 29, T22S, R26E, NMPM, Eddy County, New Mexico.

2. The subject tract is located near the Happy Valley-Morrow Gas Pool, Undesignated South Happy Valley-Atoka Gas Pool, Undesignated Sheep Draw-Strawn Gas Pool and Undesignated Southeast Carlsbad-Wolfcamp Gas Pool.

3. The subject well is to be drilled at a standard gas well location in the NW/4 of Section 29 to test any and all formations in the pooled interval from the surface to the base of the Morrow formation

4. Dreyfus has the voluntary agreement of certain of the working interest ownership of the oil & gas minerals from the surface to the base of the Delaware formation underlying the W/2 of said Section 29.

5. Dreyfus has proposed to InterCoast Oil & Gas Company that Dreyfus be designated the operator of the subject well and its appropriate spacing unit.

6. Dreyfus has not yet been unable to obtain a written voluntary agreement from InterCoast Oil & Gas Company.

7. The working interest owners in this spacing unit entitled to participate in and share in the costs of this well are as identified on Exhibit "A."

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

8. 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 January 9, 1997.

WHEREFORE, Dreyfus, as applicant, requests that this application be set for hearing on January 9, 1997 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) Louis Dreyfus Natural Gas Corp. 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) 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 the typed name.

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

EXHIBIT "A"

Andrews Royalty, Inc.
P. O. Box 7808
Dallas, Texas 75209-0808
Attn: Kathy Conaway

Linda Buckner
John A. Matthews, Jr.
Mineral Interest
P. O. Box 176
Abilene, Texas 79604

Linda Buckner
Julia Jones Matthews
Trustees of the Julia
Jones Matthews Living Trust
P. O. Box 176
Abilene, Texas 79604

Dodge Jones Foundation
P. O. Box 176
Abilene, Texas 79604
Attn: Linda Buckner

The Fasken Foundation
500 West Texas
Suite 1160
Midland, Texas 79701
Attn: Bob Jones

Mr. Randy Geiselman
3301 Stanolind
Midland, Texas 79707

Mary Ralph Lowe,
Trustee of the Erma Lowe Trust
for Clayton Lowe Yost,
c/o Maralo, Inc.,
Five Post Oak Park, Suite 1010,
Houston, Texas 77027

Mary Ralph Lowe,
Trustee of the Erma Lowe Trust
for Carson R. Yost,
c/o Maralo, Inc.,
Five Post Oak Park, Suite 1010,
Houston, Texas 77027

Mary Ralph Lowe,
Trustee of the Erma Lowe Trust
for Samantha Adelside Yost,
c/o Maralo, Inc.,
Five Post Oak Park, Suite 1010,
Houston, Texas 77027

Maralo, Inc.
5151 San Felipe
Suite 400
Houston, Texas 77056-3607
Attn: Joe Pulido

Matt-Tex, L.L.P.
P. O. Box 176
Abilene, Texas 79604
Attn: Linda Buckner

John A. Matthews, Jr.
1821 Industrial Road
San Angelo, Texas 76904

Penwell Energy, Inc.
600 North Marienfeld
Suite 1100
Midland, Texas 79701-4362
Attn: Mar, Wheeler

Republic Royalty Company
3738 Oak Lawn Ave
Suite 300
Dallas, Texas 75219
Attn: Casey McManemin

Santa Fe Energy Resources, Inc.
500 West Texas
Suite 1330
Midland, Texas
Attn: Joe Hammond

SASI Minerals Co.
200 Crescent Court
Suite 1055
Dallas, Texas 75201

CASE 11686 Application of Louis Dreyfus Natural Gas Corp. for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Delaware formation underlying the W/2 of Section 29, T22S, R26E, NMPM, Eddy County, New Mexico, forming a standard 320-acre gas spacing and proration unit underlying the W/2 of said Section 29 for any and all formations and/or pools spaced on 320-acre spacing, including but not limited to the Happy Valley-Morrow Gas Pool, Undesignated South Happy Valley-Atoka Gas Pool, Undesignated Sheep Draw-Strawn Gas Pool and Undesignated Southeast Carlsbad-Wolfcamp Gas Pool; and the NW/4 of said Section 29 for any and all pools or formations spaced on 160-acres. Said unit(s) is to be dedicated to its McKittrick "29" Well No. 1 to be drilled and completed at a standard well location in said Section 29. 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 said well.

Said unit is located approximately 6 miles southwest from Carlsbad, New Mexico.