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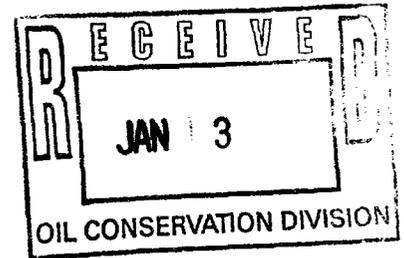
W. THOMAS KELLAHIN*

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

JASON KELLAHIN (RETIRED 1991)

January 13, 1998

HAND DELIVERED



Ms. Kathleen Garland, Acting Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

**Re: Tilley Well No. 1
Application of Primero Operating, Inc.
for Compulsory Pooling and an Unorthodox Well Location,
Lea County, New Mexico**

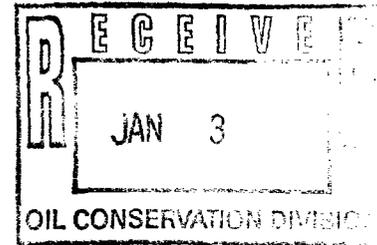
Dear Ms. Garland:

On behalf of Primero Operating, Inc., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for February 5, 1998. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,

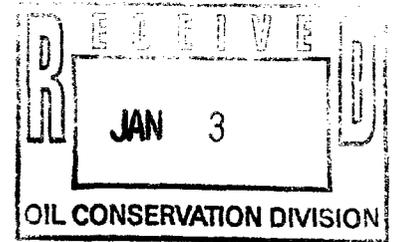
W. Thomas Kellahin

cc: Primero Operating, Inc.
Attn: F. Andrew Grooms



CASE 11922: Application of Primero Operating, Inc. for compulsory pooling and an unorthodox well location, Lea County, New Mexico. Applicant seeks an order pooling all mineral interests from 10,667 feet (the approximate top of the Canyon formation) to 12,658 feet (a point within the Devonian formation) underlying S/2 of Section 26, T16S, R35E, NMPM, Lea County, New Mexico, forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, and forming a standard 160-acre gas spacing and proration unit underlying the SW/4 of said Section 26 for any and all formations/pools developed on 160-acre gas spacing, and forming a standard 40-acre oil spacing and proration unit underlying the SE/4SW/4 of said Section 26 for any and all formations/pools developed on 40-acre oil spacing. Said unit is to be dedicated to its Tilley Well No. 1 to be a re-entry of the former Kennedy & Mitchell Inc.'s Tilley Well 758-3 (API 30-025-27891-0001) and completed at an unorthodox well location 330 feet from the South line and 1815 feet from the West line (Unit N) of said Section 26. Also to be considered will be the wellbore value and the costs of re-entry and completing said well and the allocation of the value and costs thereof as well as actual operating costs and charges for supervision, designation of the 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 Lovington, New Mexico.

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



IN THE MATTER OF THE APPLICATION
OF PRIMERO OPERATING, INC.
FOR COMPULSORY POOLING AND AN
UNORTHODOX WELL LOCATION
LEA COUNTY, NEW MEXICO.

CASE NO. 11922

APPLICATION

Comes now PRIMERO OPERATING, 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 from 10,667 feet (the approximate top of the Canyon formation) to 12,658 feet (a point within the Devonian formation) underlying S/2 of Section 26, T16S, R35E, NMPM, Lea County, New Mexico, forming a standard 160-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, and forming a standard 160-acre gas spacing and proration unit underlying the SW/4 of said Section 26 for any and all formations/pools developed on 160-acre gas spacing, and forming a standard 40-acre oil spacing and proration unit underlying the SE/4SW/4 of said Section 26 for any and all formations/pools developed on 40-acre oil spacing. Said unit is to be dedicated to its Tilley Well No. 1 to be a re-entry of the former Kennedy & Mitchell Inc.'s Tilley Well 758-3 (API 30-025-27891-0001) and completed at an unorthodox well location 330 feet from the South line and 1815 feet from the West line (Unit N) of said Section 26. Also to be considered will be the costs of re-entry and completing said well and the allocation of the value and costs thereof as well as actual operating costs and charges for supervision, designation of the Applicant as the operator of the well and a charge for risk involved in said well.

In support of its application, Primero Operating, Inc., ("Primero") states:

1. Primero has a working interest ownership in the oil and gas minerals from the surface to the base of the Devonian formation underlying the S/2 of Section 26, T16S, R35E, NMPM, Lea County, New Mexico.

2. Primero is the operator of portions of the S/2 of said Section 26 pursuant to several joint operating agreements which do not cover all interest owners or all depths. Specifically the joint operating agreement covering the SW/4 of said Section 26 does not include the footage interval from 10,677 feet to 12,658 feet.

3. Primero has proposed the re-entry of the subject well and its appropriate spacing unit to the working interest owners in the spacing unit who could be located.

4. Despite its good faith efforts, Primero has been unable to locate certain interest owners and also has not been able to obtain a written voluntary agreement from all of the parties. A complete list of all working interest owners whose interest is to be pooled is attached as Exhibit "A."

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

6. Primero also requests approval from the Division for the unorthodox well location and has provided notice of this application to all offset operators as shown on Exhibit "B" attached.

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" 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 February 5, 1998.

WHEREFORE, Primero Operating, Inc., as applicant, requests that this application be set for hearing on February 5, 1998 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 re-entry of the subject well at a unorthodox well location upon terms and conditions which include:

- (1) Primero Operating, Inc. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in their share of the value of the existing wellbore and the costs of re-entry, 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 wellbore value and the costs of 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 in a cursive style.

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

EXHIBIT A

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Houston, Texas 77006

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Denver, Colorado 80227

Jacqueline Kennedy
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Denver, Colorado 80227

BPSRR Enterprises, Ltd.
P. O. Box 27296
Denver, Colorado 80227

Pelham, Inc.
1000 Louisiana, Suite 3350
Houston, Texas 77002

Harry R. Rider
135 S. Illinois St.
Indianapolis, Indiana 46225

Whiting 1988 Production Partnership Ltd
1700 Broadway, Suite 2300
Denver, Colorado 80290-2301
Attn: Judy Dayton

John L. Hern
13611 Taylorcrest
Houston, Texas 77079

EXHIBIT "B"

Echo Production Inc.
Box 1210
Graham, Texas 76450