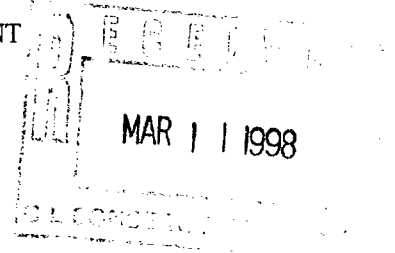




United States Department of the Interior

BUREAU OF LAND MANAGEMENT
ROSWELL DISTRICT OFFICE
2909 West Second Street
Roswell, New Mexico 88201-2019



IN REPLY REFER TO:
3160 (3105.2-2)

MAR 06 1998

Kellahin and Kellahin
Attention: W. Thomas Kellahin
P.O. Box 2265
Santa Fe, New Mexico 87504-2265

Re: NMOCD Case 11926
Application of KCS Medallion Resources, Inc.
for Compulsory Pooling, Eddy County, New Mexico

Dear Mr. Kellahin:

By letter dated February 19, 1998, you requested our interpretation of Federal Regulation 43 CFR 3105.2-2 as it pertains to the pending NMOCD Case 11926 before Examiner Michael E. Stogner of the New Mexico Oil Conservation Division.

Federal Regulation 43 CFR 3105.2-3 concerning communitizations or drilling agreements states the following:

3105.2-2 Purpose

When a lease or a portion thereof **cannot** be independently developed and operated in conformity with an established well-spacing or well-development program, the authorized officer may approve communitization or drilling agreements for such lands with other lands, whether or not owned by the United States, upon a determination that it is in the public interest. Operations or production under such an agreement shall be deemed to be operations or production as to each lease committed thereto.

As stated in the regulation, the objective of communitization is to provide for the development of separate tracts which cannot be independently developed or operated in conformity with well spacing patterns established in the area. As a general guideline communitization will not be authorized when a single Federal lease or unleased Federal acreage can be fully developed and still conform to an optional (North-South or East-West spacing) pattern established by State order.

In certain instances the Bureau of Land Management will approve a communitization even though the lease can be independently developed in conformance with state established spacing if adequate engineering and/or geological data is presented to indicate that communitizing two or more leases or unleased Federal acreage will result in more efficient drainage of an area.

If you have any other questions, please call me at (505) 627-0248

Sincerely,

(ORIG. SGB.) ARMANDO A. LOPEZ

Armando A. Lopez
Acting Ass't. District Manager,
Minerals

cc:
NMOCD Case 11926
Reading File
NM (062, A. Lopez)
NMOCD - Santa Fe
AH: Miss Stogner