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NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

October 13, 1998

HAND DELIVERED

Ms. Lori Wrottenberg, Director
Oil Conservation Division
2040 South Pacheco
Santa Fe, New Mexico 87505

12072

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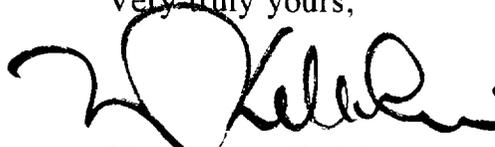
OIL CONSERVATION DIV

**Re: Poco Mesa "26" Federal Com Well No. 1
Application of Nearburg Exploration Company, L.L.C.
for Compulsory Pooling
Eddy County, New Mexico**

Dear Ms. Wrottenberg:

On behalf of Nearburg Exploration Company, L.L.C., please find enclosed our referenced application which we request be set for hearing on the Examiner's docket now scheduled for November 5, 1998. Also enclosed is our proposed advertisement of this case for the NMOCD docket.

Very truly yours,



W. Thomas Kellahin

cc: Nearburg Exploration Company, L.L.C.
Attn: Mike Gray

12072

CASE ____: Application of Nearburg Exploration Company, L.L.C. for compulsory pooling, Eddy County, New Mexico. Applicant seeks an order pooling all mineral interests from the surface to the base of the Morrow formation underlying the following described acreage in Section 26, T18S, R24E, NMPM, Eddy County, New Mexico and in the following manner: the N/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently may include but is not necessarily limited to the Penaso Draw-Morrow Gas Pool and Penasco Draw Permo-Penn (Cisco) Gas Pool. Said unit is to be dedicated to its Poco Mesa "26" Federal Com Well No. 1 to be drilled and completed at a standard gas well location in this section. 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 Nearburg Producing Company as the operator of the well and a charge for risk involved in said well. Said unit is located approximately 9 miles south of Artesia, New Mexico.

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

IN THE MATTER OF THE APPLICATION
OF NEARBURG EXPLORATION COMPANY, L.L.C.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.

CASE NO. 12672

APPLICATION

Comes now NEARBURG EXPLORATION COMPANY, L.L.C. 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 Morrow formation underlying the following described acreage in Section 26, T18S, R24E, NMPM, Eddy County, New Mexico and in the following manner: the N/2 to form a standard 320-acre gas spacing and proration unit for any and all formations and/or pools developed on 320-acre gas spacing within said vertical extent, which presently may include but is not necessarily limited to the Penaso Draw-Morrow Gas Pool and Penasco Draw Permo-Penn (Cisco) Gas Pool. Said unit is to be dedicated to its Poco Mesa "26" Federal Com Well No. 1 to be drilled and completed at a standard gas well location in this section. 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 Nearburg Producing Company as the operator of the well and a charge for risk involved in said well.

In support of its application, Nearburg Exploration Company, L.L.C. ("Nearburg") states:

1. Nearburg has a working interest ownership in the oil and gas minerals from the surface to the base of the Morrow formation underlying the N/2 of Section 26, T18S, R24E, NMPM, Eddy County, New Mexico.

2. The subject tract is located within one-mile of the current boundaries of the Penasco Draw-Morrow Gas Pool.

3. The subject well is to be drilled at a standard gas well location within the N/2 of Section 26 to test any and all formations in the pooled interval from the surface to the base of the Morrow formation and to be dedicated to the appropriate sized spacing unit for the appropriate pool.

4. Nearburg has proposed the subject well and its appropriate spacing unit to the working interest owners in the spacing unit.

5. Despite its good faith efforts, Nearburg 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, Nearburg 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 November 5, 1998.

WHEREFORE, Nearburg, as applicant, requests that this application be set for hearing on November 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 drilling of the subject well at a standard well location upon terms and conditions which include:

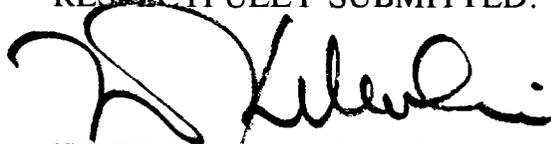
- (1) Nearburg Producing Company be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;
- (3) In the event a working interest owner fails to elect to participate, then provision be made to 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:



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P. O. Box 2265
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(505) 982-4285

EXHIBIT "A"

David H. Arrington Oil and Gas, Inc.
214 West Texas Ave. Suite 400
Midland, Texas 79701

Dale Douglas
P. O. Box 10187
Midland, Texas 79702